WORKING GROUP REPORT

Property Tax

FAIR TAX COMMISSION • COMMISSION DE L'ÉQUITÉ FISCALE

Table of Contents

Appendices

December 9, 1992

The Honourable Floyd Laughren
Treasurer of Ontario and Minister of Economics
7th Floor Frost Building South
7 Queen's Park Crescent
Toronto, Ontario M7A 1Y7

Dear Minister:

We, the members of the Property Tax Working Group of the Fair Tax Commission, are pleased to submit our final report.

Yours truly,

A. Dharmalingam
Co-Chair
Property Tax Working Group

Margaret Wilson
Co-Chair
Property Tax Working Group

Working Group Members

Audi Dharmalingam	**Working Group Co-chair** President, Urban Alliance on Race Relations
Margaret Wilson	**Working Group Co-chair** Secretary-Treasurer, Ontario Teachers' Federation
Beverley Allen	Director of Legislation and Finance Ontario Public School Boards Association
Grant Andrews	Associate Director in charge of Business Affairs Durham Region Roman Catholic Separate School Board
Elizabeth Behrens	Regional Councillor, Town of Oakville
Wendy Bell	Former Mayor, Town of Marathon
Audrey Birt	Director, Taxation and Water Revenue, Finance Department, City of Toronto
Doris Brick	Reeve, Township of Ennismore
Ken Brooks	Executive Director, Legal Assistance Kent Town of Wallaceburg (former Councillor)
Charles Caldwell	Mayor, Town of New Liskeard
John Calvert	Research Officer, Canadian Union of Public Employees
Paul Carroll	Superintendent of Business & Operations, Huron County Board of Education
Danielle Chartrand	Director of Property, Department of Housing and Property, City of Ottawa
Donald Clune	Chairman, Metropolitan Separate School Board
Grant Collins	Past President, Bruce County Federation of Agriculture

*** Titles listed are for identification only, members support for this report does not necessarily imply support for it by the organizations with which they are affiliated.***

Working Group Members List (continued):

Ron Ditchburn	Manager, Property Tax, CN Real Estate
Louise Eason	Acting Commissioner of Finance, Regional Municipality of Peel
Andy Faas	Executive Vice President, National Grocers Company (resigned May 1992)
Iain D. Fraser	President, AEC Group Ltd., Valuations Inc.
Peter Goldthorpe	Director of Information and Legislative Services, Ontario Home Builders' Association
Linda Grayson	Associate Director of Education-Operations, Toronto Board of Education
Jim Gubinczki	Treasurer, City of St. Thomas
James Head	First Vice-President, Ontario Teachers' Federation,
Florence Henderson	Ontario Teachers' Federation
Grant Hopcroft	Controller, The Corporation of the City of London
Garth Jackson	President, Canadore College of Applied Arts and Technology
Ruth Lafarga	Citizen - Former Trustee, Durham Board of Education
Terry Mangan	Ontario Teachers' Federation, Deputy General Secretary, OECTA
Malcolm McCarthy	Director, Peterborough Two Tier Property Tax Committee
Ross McKee	Director of Revenue, City of Waterloo
Dick McIntosh	Consultant to the Metro Toronto Public School Boards, former Superintendent of Business and Plant, East York Board of Education
Donald McIver	Chief Economist, Sun Life of Canada
Roland Montpellier	Supervisor of Revenue, Sudbury District Roman Catholic Separate School Board

** Titles listed are for identification only, members support for this report does not necessarily imply support for it by the organizations with which they are affiliated.*

Working Group Member List continued:

Allan Morrill	Assessment Manager, Falconbridge Limited
Katherine Packer	Citizen, member of the Upper Stoney Lake Cottagers' Association
Joe Pantalone	Councillor, Municipality of Metropolitan Toronto
Robert Poirier	Supervisor, Separate School Panel, Ottawa - Carleton French Language School Board
Robert Richards	Deputy Chief Administrative Officer, Municipality of Metropolitan Toronto
Elaine Rowe	Manager, Public Education Assessment Review Department Metropolitan Toronto School Board
Arthur St. Jean	Trustee, Association Franco-Ontarienne des Conseils d'Ecoles Catholiques
Andrew Stewart	Citizen with interest in Tenants
David Stewart	Director, Property Tax & Insurance, Cambridge Leaseholds Limited
Ron Sudds	Business Superintendent, Northumberland and Newcastle Board of Education
Myron Swartz	President, Building Owners Association
Jack Switzer	Citizen - Former Chairman of the Atikokan Board of Education
Peter Tomlinson	Director of Economic Development, Planning & Development Department, City of Toronto
Reno Viswasam	Citizen, Director, Royal Management Group
Paul Whitehead	Representative of the Ontario Separate School Trustees Association, Trustee
John Woods	Deputy City Treasurer, Finance Department, City of Toronto

**** Titles listed are for identification only, members support for this report does not necessarily imply support for it by the organizations with which they are affiliated.***

Working Group Observers

Ruth Baumann	Executive Assistant, Ontario Teachers' Federation
Fiona Chapman	Trustee, Toronto Board of Education
Ted Cook	Economist, Canadian Tax Foundation
Hugh Craigen	Assessment Manager, Waterloo RCSSB
Lynn Delvaux	Chief Accountant, Peel Board of Education
Lionel Feldman	President, Lionel D. Feldman Consulting Inc.
Sam MacKinlay	Executive Director, Task Force on the Funding of Public Education—Metro Public School Boards
Charlotte MacFarlane	Researcher, Association of Municipalities of Ontario
Earle McCabe	Deputy Executive Director, Ontario Separate School Trustees Association
Peter Meneguzzi	Deputy Director of Education Administrative Services & Treasurer, Metropolitan Separate School Board
Patrick Slack	Executive Director, Ontario Separate School Trustees' Association
Paul Wealleans	Supervisor, Assessment and Taxation Research, City of Toronto Finance Department

---

The opinions and judgements in the report are those of the working group members. However, the group received much factual support and input from employees of the Ontario Public Service, many of whom attended meetings on a regular basis.

Special thanks to the following members of the Ontario Public Service for their ideas, their expertise and their time:

Margaret Allen, Ministry of Municipal Affairs; Andrew Bright, Ministry of Education; Ruth Cameron, Ministry of Revenue; Oussama Al-Dimaski, Ministry of Municipal Affairs; James E. Doris, Ministry of Education; Gerry Hinbest, Ministry of Skills Development; Brian Kozman, Ontario Ministry of Housing; Brian Lenglet, Ministry of Education; Anne Lloyd, Ministry of Education; Lucy Magnus-Burke, Ministry of Treasury and Economics; Janet Mason, Ministry of Skills Development; John Nywening, Ministry of Community and Social Services; Michael O'Dowd, Ministry of Revenue; Linda Perry, Ministry of Education; Bill Robson, Ministry of Municipal Affairs; David Roote, Ministry of Revenue; Almos Tassonyi, Ministry of

Municipal Affairs; Walter Wasylko, Ministry of Education; William Wu, Ministry of Revenue; Paul Scale, Provincial/Local Relationship Secretariat.

In addition we would like to thank the following FTC Staff:

Christine Avery-Nuñez; John Bossons; Jan Dutton; Ana Ferraro; Hugh Mackenzie; Joanne Mastrotucci; Mary Liston; David Sharp; Richard Shillington; Robert Spencer; Stephanie Turner; Jean-Claude Zabbal; and all of the adminstrative staff for their extra efforts.

List of Principal Conclusions

List of Recommendations

REPORT

Introduction

The Property Tax Working Group was created by the Treasurer in September, 1991 as part of the government's overall review of tax policy issues in Ontario. The terms of reference of the group were established initially in questions referred to the group by the Treasurer, and augmented by references from the Ministers of Education and Municipal Affairs.

Mandate

The questions referred by the Treasurer were as follows:

- Is the current property tax system capable of meeting the revenue requirements associated with local governments' and school boards' program delivery responsibilities?
- If not, what changes should be made to the property tax system and/or other funding sources for local governments and/or school boards to improve fairness in their revenue raising requirements?

The group's work in answering these questions has been coordinated with two other reform exercises currently under way in Ontario: the Provincial/Local Relationship Review (Disentanglement); and the Education Finance Reform project of the Ministry of Education. The Provincial/Local Relationship Review is a joint project of the Government of Ontario and the Association of Municipalities of Ontario aimed at rationalizing program and expenditure responsibilities in areas of shared activity between the provincial government and the municipal sector. Education Finance Reform is an internal study of the financing of education. Its particular focus is issues of equity in education funding for both taxpayers and students.[1]

The Minister of Municipal Affairs referred the revenue issues raised by municipal disentanglement project to the Property Tax Working Group. The Minister of Education referred revenue equity issues in education finance reform to the working group.

The working group

The Property Tax Working Group is an independent advisory body appointed by the Treasurer to provide advice on local government finance reform options. It falls under the umbrella of the Fair Tax Commission and is served by the same staff sec-

1 These current reviews are discussed in greater detail in the body of this report.

retariat but is independent of the Commission. The group is composed of 49 members, representing a broad cross-section of interests in local government. Approximately one third of the group represents the education sector, one third represents the municipal sector, and one third represents various private sector interests.

The group began its work in September 1991 with a thorough review of the major issues in local government finance related to tax administration, education finance and municipal finance. It then worked in three panels to analyze the policy questions that emerged from that review and presented findings on the issues back to the whole Group.

The working group issued two newsletters during its mandate. The newsletters were mailed to every local government institution in the province and in addition, to a large number of organizations and individuals who had indicated an interest in property tax reform issues. A consultative package based on a preliminary outline of the group's report was mailed out to more than 300 province-wide organizations with an interest in property tax issues. The group received a total of 54 formal submissions and, through the Fair Tax Commission, more than 500 letters from individuals expressing their views on property tax. In addition, the working group received input on local government finance issues from the Community Consultation Program of the Fair Tax Commission.

Although the majority of the members of the group have an organizational affiliation and, in general, communicated regularly with their organization, they participated in the exercise as individuals. Their support for this report does not necessarily imply support for it by the organizations with which they are affiliated.

There are opinions and recommendations in the Report with which individual members of the Committee disagree. They have compromised to arrive at recommendations of substance. Since the recommendations represent a consensus on each subject, no single member of the Committee should be held responsible for any one of the views expressed in the Report.

Today's fiscal environment

The local government finance system in Ontario is under great stress. In the municipal sector, constraints in federal and provincial support for spending on roads and other local infrastructure have generated widespread concern about the ability of local governments to prevent such services from deteriorating. Rapidly escalating expenditures on welfare assistance, driven partly by the deteriorating economy and partly by reforms to the system introduced by the provincial government, have strained both the local financial system and the provincial-municipal tradition of cost sharing for social services. The application of new general provincial standards, in areas from employment equity to environmental protection, have also imposed new costs at the local level.

In education, a decade of cuts in the provincial share of funding has pushed property taxes for education from 50% to 55% of the local property tax bill (excluding

payments-in-lieu of taxes)[2] and generated significant taxpayer resistance to tax and spending increases. Increases in the scope of mandatory programs have not been matched by increases in provincial funding and have contributed to the difficulties faced by school boards with weak financial bases. These boards are faced with a choice: keep taxation rates competitive with those of coterminous boards and accept differences in service levels; or keep services at a roughly comparable level and maintain higher tax rates than those set by coterminous boards. The financial squeeze is illustrated by the fact that one school board is already operating under ministry supervision and others are operating with accumulated deficits. At the same time, the changing economy is generating even more demands on the education system to contribute to an economic strategy based on effective investments in skills and training.

Structural changes in the Ontario economy have simultaneously undermined local tax bases, increased demand for locally provided services, reduced the ability to pay of local taxpayers, and constrained the capacity of the provincial government to provide the necessary offsetting assistance. These factors have combined to produce increases in residential property taxes as a percentage of household income in Ontario for the first time since the 1960s.

Tighter limits on the resources available to support public services have also led to questions about the structure of government itself. Inefficiencies in the delivery of public services and duplication of programs and facilities – between lower tier and upper tier local governments[3], between school boards and between local governments generally and the province – might have been tolerated by the public ten years ago. Today, such apparent inefficiencies are giving rise to widespread taxpayer resistance.

Twenty years of failed attempts to change a local tax system that was badly in need of reform 30 years ago have left the province with a patchwork quilt of outdated and inconsistent tax and assessment systems that is incomprehensible to the taxpayer. In many parts of the province, differences in taxes paid on similar properties defy explanation. Comparisons of tax rates across the province or between classes of property are so complex that they have become virtually the exclusive preserve of experts.

---

2 Payments-in-lieu of taxes are payments by federal and provincial governments to municipalities in lieu of property taxes that would otherwise be paid on provincial and federal government property. They amount to approximately 4% of total property tax revenue. These payments are not allocated between municipalities and school boards in proportion to the tax rates for these functions. To provide an accurate reflection of the division of property taxes paid by property taxpayers based on the tax rates set for education and municipal purposes, payments-in-lieu of taxes are not included in the totals for these comparisons, except where otherwise noted.

3 Lower-tier local governments include towns, villages, townships and cities that are part of a county, district, regional or metropolitan government. County district, regional and metropolitan governments are referred to as upper-tier governments.

Ontario's system for financing local government is badly in need of renewal. The costs of fixing the system, both political and financial, will be substantial. Implementation of some of the recommendations made in this report would result in substantial shifts in tax loads among local taxpayers. Other recommendations suggest that property tax should be replaced by provincial taxes for some of the services currently provided by local government. Taken together, the conclusions and recommendations of the working group have profound implications for the structure and role of local government.

However, as substantial as those costs may be, they pale in comparison to the costs that we as a society will incur in the future if we continue to ignore today's problems. The past 20 years have taught us that these problems do not go away with time; they get worse. Taxpayers are losing confidence in the ability of the local institutional system to effectively deliver the services they want and to share the costs fairly.

Scope and perspective

The working group's investigation of local government finance differs from past exercises in several respects. First, its investigation encompasses the full range of issues. Its purview is not limited either to the municipal sector or to the education sector, nor is it focused strictly on taxation to the exclusion of the grants system or vice versa. Second, it comes to the issues initially from the perspective of the individual Ontarian as a consumer of local services and as a taxpayer. Institutional interests – the relationships among school boards, local governments and the provincial government – are obviously integral both to the issues and to any proposed responses to those issues, but those issues are viewed from the perspective of the individual resident of this province.

The working group was guided in formulating its recommendations by some simple but important concepts. First there is only one taxpayer – there is no such thing as a municipal taxpayer as distinct from a school board taxpayer as distinct from a provincial taxpayer. Second, the idea of tax "burden" in the abstract is meaningless. Taxes are what we pay for the services which we collectively decide ought to be provided by our institutions of government. The role of those institutions is to provide those services in the most effective manner, and to raise the revenues required to pay for them in a manner that we collectively consider to be fair.

The report is divided into eight sections.

Section I addresses the role of the property tax in local government finance, analyzes the issues of fairness raised by the property tax and reaches a series of conclusions that form the basis for the conclusions and recommendations in the remainder of the report.

Sections II to VI explore the implications of this approach to fairness for property taxes generally (section II), assessment in particular (section III), other current or

potential local tax sources (section IV), the mix of taxes and grants used to fund local government and individual tax relief (section V) and education finance (section VI).

Section VII considers the implications of local government finance reform from the perspective of our institutions of local government. Section VIII deals with administrative issues and the standards that should be met by transitional measures for local government finance reform.

I. LOCAL GOVERNMENT FINANCE FROM THE TAXPAYER PERSPECTIVE

This section looks at the fairness of the local tax system in Ontario and develops general principles which are applied in other sections of this report. Because of the importance of the property tax, a large part of this section focuses on what its role should be in a fair system of local taxation.

Some facts about property taxes

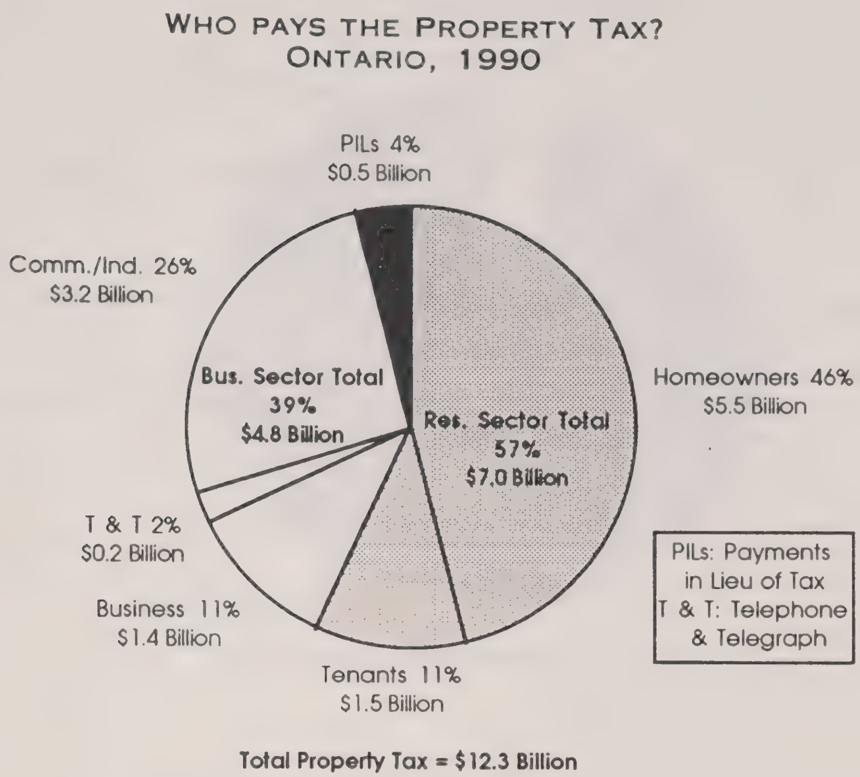
The property tax is actually three different taxes: residential, commercial and industrial, and business occupancy. Each of these taxes is borne by different taxpayers, has different implications for taxpayer equity, and has different impacts on economic activity. In 1990, the residential property tax accounted for 56% of local property tax revenue in the province. The tax is based on the assessed value of property and is paid either directly by owner-occupiers of residential property or indirectly through the rents charged to tenants of rented residential property.

The commercial and industrial property tax accounted for 25% of total property tax revenues in 1990. The tax is based on the assessed value of property and is paid either directly by owner-occupiers or by commercial or industrial tenants through their rents. Current economic factors play a major role in determining the extent to which commercial and industrial taxes or tax increases can be passed on to consumers. As with the residential property tax, the commercial and industrial property tax is a legal obligation of the owner of the property. In the event of non-payment, the local taxing authority has the right to recover unpaid taxes through the registration of a lien on the property or ultimately through a forced sale of the property.

The business occupancy tax accounted for 12% of property tax revenues in 1990. This tax applies to the occupants of commercial and industrial properties and is levied as a percentage of the property tax obligation of the owner of the property. The percentage varies depending on the type of business from 25% for such businesses as parking lots to 75% for breweries and distilleries. The average business tax rate is about 45%. Most retail businesses pay 30%. Unlike other property-based taxes, this tax is not paid by the owner of the property but by the business occupant.

Approximately 4% of property tax revenue is in the form of payments in lieu of tax (PILs) from other levels of government. The remaining 2% is paid by telephone and telegraph companies (T&T) on their gross receipts as an alternative to property taxation of rights of way.

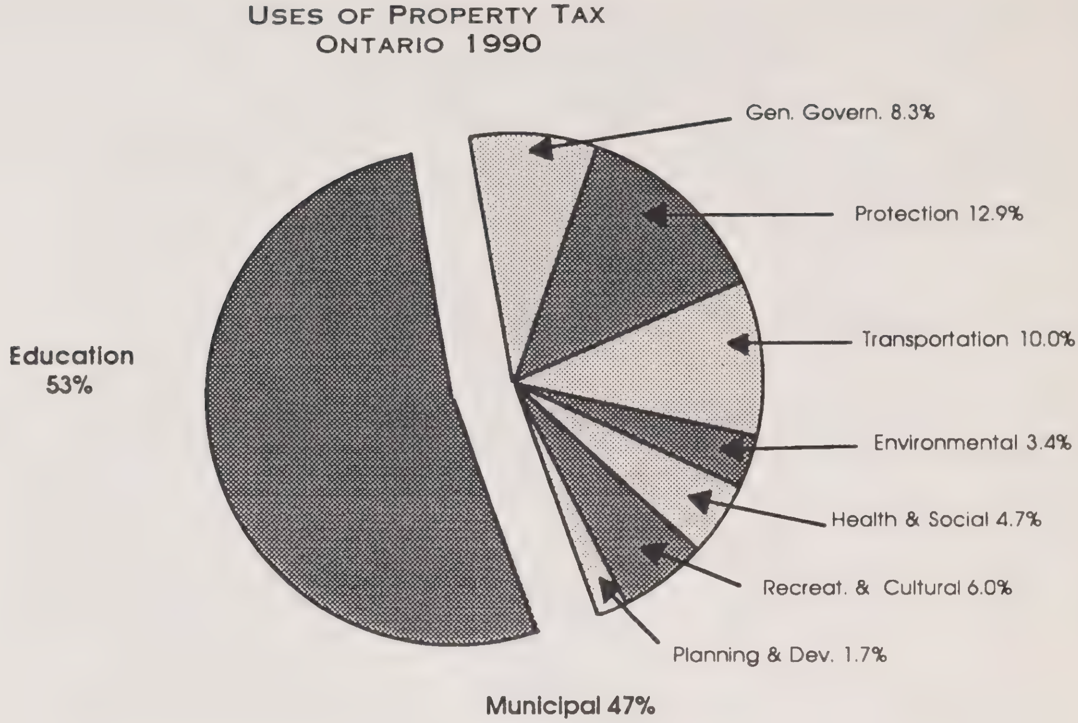
Chart 1.



In 1993, property taxes are expected to account for a total revenue of approximately $15.3 billion.

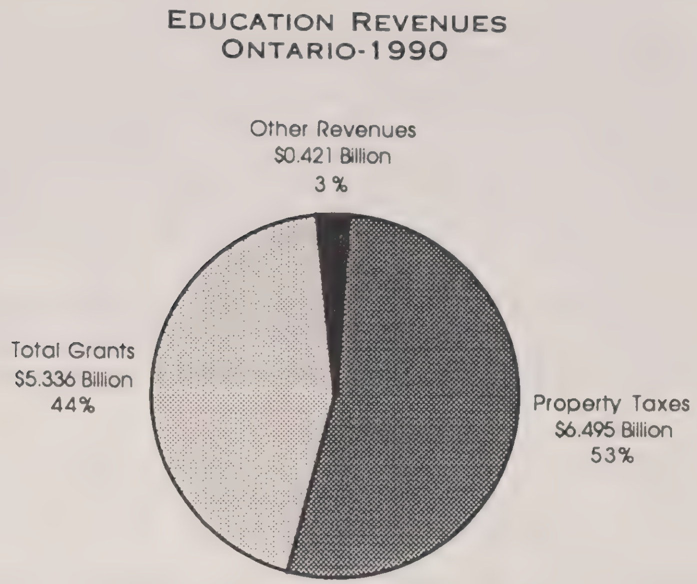
Quantitatively, the property tax is more of an education tax than it is a municipal tax. The following chart shows the distribution of property taxes between school boards and municipalities and among various categories of municipal services. In 1990, 53% of property tax revenue (including PIL's) was used to support education.

Chart 2.



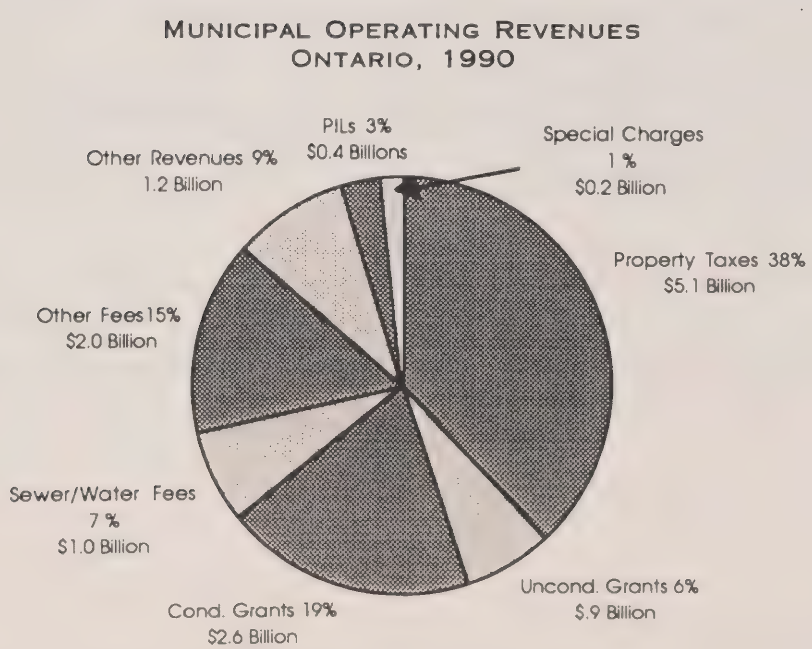
Comparing the funding for both school boards and municipalities, the data show that school boards are in fact more heavily dependent on property taxes for their funding than are municipal governments. Property taxes accounted for 53% of education revenues in 1990; grants from the provincial government for 44%. For 1993, it is estimated that grants from the provincial government will have fallen to just over 38% of total local operating expenditures for education in Ontario.

Chart 3.



Total Education Revenues = $12.3 Billion

Chart 4.

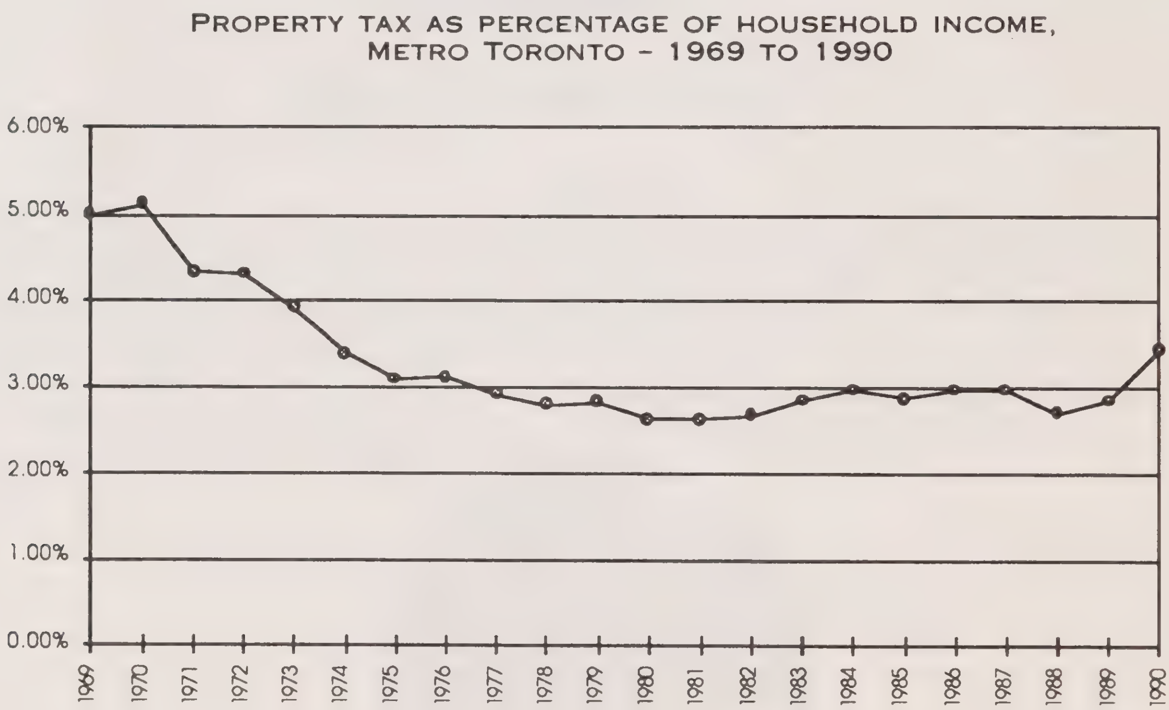


Total Operating Revenues = $13.4 Billion

Municipalities are much less dependent on property taxes as a revenue source, raising only 38% of their total revenue from the property tax base (residential and commercial/industrial property taxes and business taxes) in 1990.

As Chart 5 shows, residential taxes as a percentage of household income[4] showed a marked increase beginning in 1989. By 1990, residential taxes had increased to close to 3% of average household income in Ontario from a longer term average of approximately 2.5%. The impact of the recession on income growth has likely pushed this percentage up further. It is important to note, however, that this recent trend reverses a longer term reduction in the household income impact of property taxes in Ontario. Data for Metropolitan Toronto for the period from 1969 to 1990 (chart 5) show that residential property taxes declined as a percentage of income from just over 5% in 1969 to less than 3% in 1977 and remained under 3% until 1989. Since 1989, the percentage has moved above 3% for the first time since the mid-1970s.

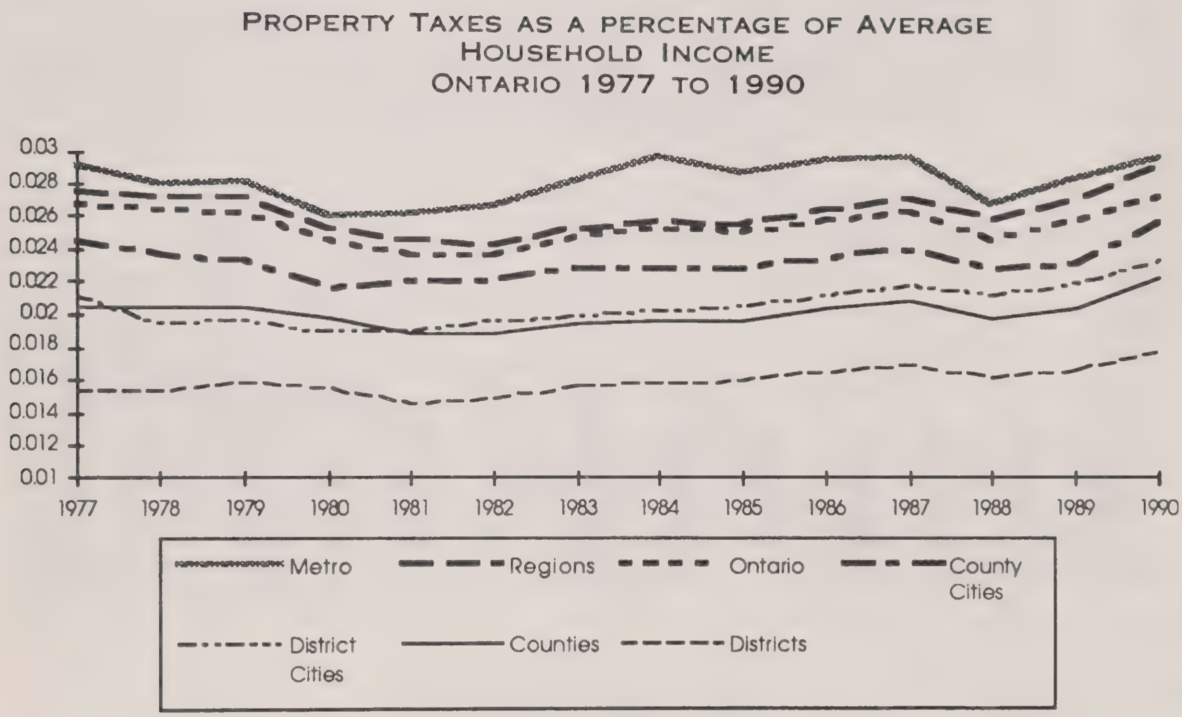
Chart 5.



4 The income concept used throughout the report is total income as defined for income tax purposes before any deductions or credits. The term "total income" includes income from salary, investments, capital gains, self-employment and social assistance programs (e.g. U.I.C). The term "household" refers to individuals who occupy the same dwelling unit and are economically interdependent.

Provincial data, which are available on a consistent basis since 1977, show essentially the same pattern as Metro Toronto in that period (chart 6). From 1977 to 1982, property taxes declined marginally as a percentage of average household income. During the period 1983 to 1988, property taxes increased only slightly as a percentage of average household income. Commencing in 1989, the province-wide average again approached 3% of average household income up from a low of 2.5% in 1981. The province-wide data also show that property taxes are consistently higher in proportion to income in urban areas than in rural areas and in areas served by regional governments than in areas served by other governments.

Chart 6.



Data on the growth of total property taxes as compared with income taxes (corporate and personal) since 1980 show that until the 1990 recession, property taxes actually grew more slowly than income taxes. (Chart 7) Between 1989 and 1990, income tax revenues flattened out and actually dropped in 1992 dollar terms between 1990 and 1991, while property taxes continued to increase at roughly the same rate as in the late 1980s. The major explanation for this pattern is that while income tax revenues are directly linked to the overall health of the economy, property tax revenues are tied to the costs of providing local services. These costs were linked to economic growth in the 1980s. Beginning in 1990, increased costs for social services driven by the deteriorating economy and increased local financing needs for education as a result of provincial funding constraints continued to push property taxes up at the same time as the weakening economy was driving income tax revenues down.

Chart 7.

PROPERTY TAXES AND INCOME TAXES (PERSONAL AND CORPORATE), ONTARIO 1980-1992. (1992 DOLLARS)

Fairness in local government finance

Most people, when they think of tax fairness, think first of whether they are getting value for money. They think of taxes – particularly property taxes – as a kind of price that they pay for services. If they think they are receiving a quality service, they will think the tax is fair. If they think their money is being wasted or spent inappropriately, they will think the tax is unfair.

Studies of tax fairness normally look at the question of fairness without reference to the particular services that are provided from the revenues raised by the tax. This approach may make sense when looking at a national or provincial tax system in which revenues are raised from a wide variety of different tax sources and pay for an even greater variety of services. At the local level in Ontario, however, we have a much narrower range of services funded essentially from a single local tax source. In looking at revenue fairness for local government, the fairness of the property tax can only reasonably be assessed in the context of the services it is expected to support.

Fairness in local finance could be measured by the appropriateness of the revenue source to the services being funded or by the more traditional concepts of equity among taxpayers. The working group adopted an approach to fairness that combines these two elements.

Ability-to-pay as a principle of fairness means that taxpayers with similar capacities to pay tax should pay similar amounts of tax (horizontal equity) and that taxpayers with different capacities to pay tax should pay appropriately different amounts of tax (vertical equity). Benefits received as a principle of fairness means that the tax paid should correspond to the benefits received by the taxpayer.

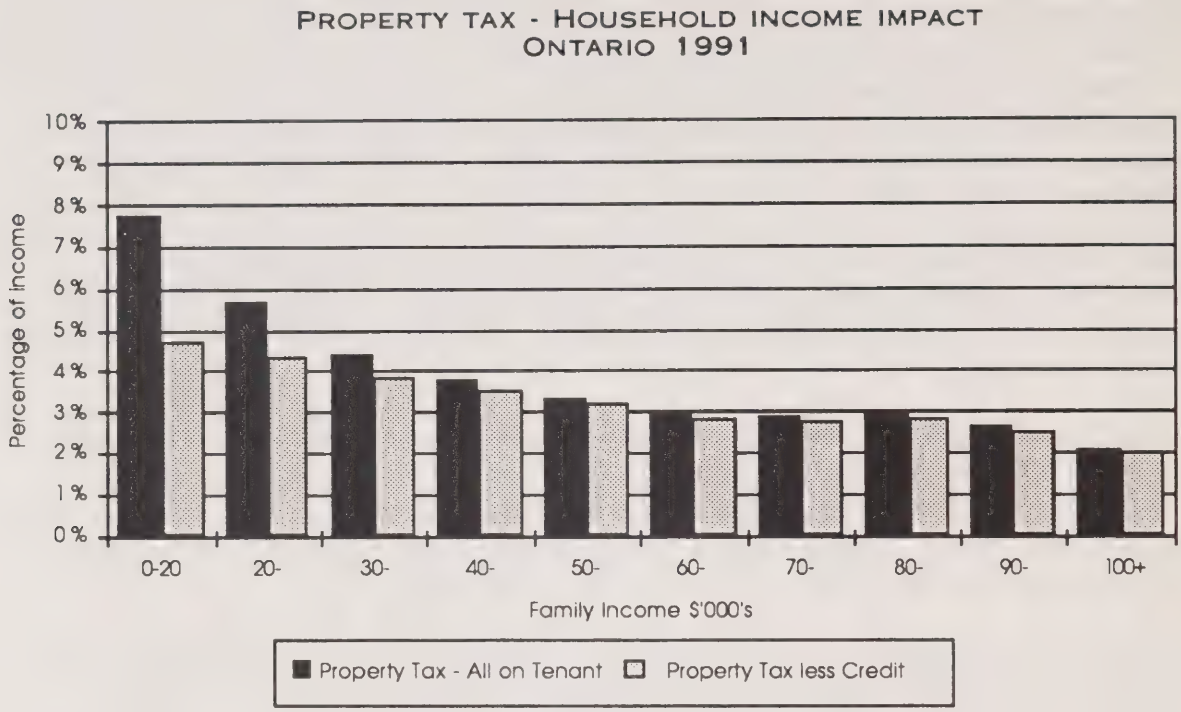
The traditional measure of capacity to pay tax is the income available to the household. Consequently, horizontal equity requires that households with similar incomes pay similar amounts of tax. Vertical equity requires that households with different incomes pay different amounts of tax. It is much more difficult to apply the concept of "benefits received" to individual taxpayers because the benefits from many public services are both difficult to measure and difficult to allocate among taxpayers.

Property tax and ability-to-pay

Using the Statistics Canada SPSD/M model[5], the Fair Tax Commission conducted a study of the relationship between property taxes in Ontario and household income. Previous studies had found that residential property taxes were regressive, that is, lower-income families pay a higher proportion of their incomes in property tax than higher-income families. The FTC study confirmed that finding and found that the regressive pattern was particularly pronounced in the lower and middle income ranges, $50,000 and below. In other words, people with low incomes pay a higher proportion of their incomes in property tax than people with high incomes. Furthermore, the study found that even when the provincial property tax credit (administered through the income tax system) is taken into account, poor households still pay proportionally more property tax than higher-income households.

5 The Social Policy Simulation Database and Model (SPSD/M) was developed by Statistics Canada for the analysis of the impact of social and economic policy changes on families, individuals and households for Canada and for Ontario. It is widely used by public policy analysts across the country.

Chart 8.[6]



For the purposes of the study, it is assumed that property taxes on residential rental accommodation are ultimately paid by tenants through their rents. Chart 8 shows the overall results of this study. It presents the average percentage of household income paid in property taxes by households according to their income. Two different results are presented. One shows the impact of property tax as a percentage of income (the dark bars) without taking into account the property tax credit administered through the income tax system. The other shows the effect of property tax credits on the incidence of the property tax. Households with incomes in the $20-30,000 range paid out roughly 5.7% of their income in property tax. Households in the $60-70,000 paid just under 3% of their income in property tax. The property tax credit reduced that average impact by 1.5%, to 4.2%, for households in the $20-30,000 income range. In the $60-70,000 income range, the credit had relatively little impact.

The study also found substantial variability in property tax as a percentage of household income among households in the same income range. These results are summarized in charts 9 and 9a.

6 The analysis summarized in this chart assumes that property taxes are fully passed through by landlords to residential tenants. An alternative assumption of a 50:50 split between landlords and tenants, shows a similar overall pattern which is somewhat less regressive at lower household income levels.

Chart 9.

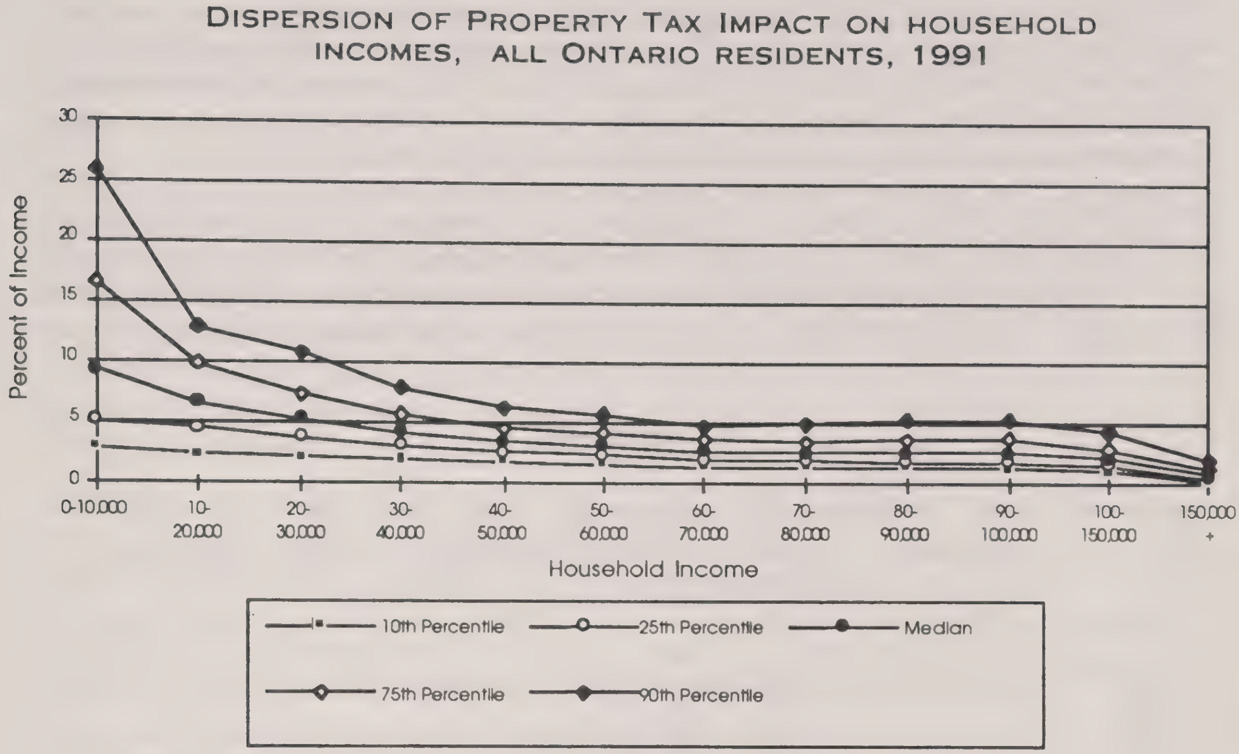


Chart 9 shows the percentage of household income accounted for by property taxes in Ontario for each household income range. The vertical axis shows property tax as a percentage of household income. The horizontal axis shows ranges of household income. The lines plotted on the chart show the impact of the property tax on the median or average household in the province in 1991 (the middle line linking solid dots (•)). The lines above and below the average illustrate the range of variation in property tax impact in each income range.

The middle line, shown on the legend as the median, shows the impact on the average household in the income range. In the $40-50,000 range, half of the households pay more than the median, 3.5%; half pay less than 3.5% of their income on property taxes.

Ten percent of households in each income range experience a property tax impact on their income lower than the percentage indicated by the bottom line, shown as the 10th percentile in the legend at the bottom of the chart. For example, in the $40-50,000 income range, 10% of the households pay more than 6% of their income in property taxes and one tenth of households pay less than 1.75% of their income on property taxes.

Twenty-five percent of households in each income range pay less in property tax as a percentage of income than the percentage indicated by the second line from the bot-

tom of the chart, shown as the 25th percentile in the legend. In the $40-50,000 range, one quarter of households pay less than 2.5% of their income on property taxes.

Seventy-five percent of the households in each income range pay less in property tax as a percentage of income than the percentage indicated by the fourth line from the bottom of the chart, shown on the legend as the 75th percentile. In the $40-50,000 income range, three quarters of the households pay less than 4.5% of their income in property taxes – one quarter of households pay more than 4.5%.

Ninety percent of the households in each income range pay a lower percentage of their income in property tax than the percentage indicated by the top line in the chart, shown on the legend as the 90th percentile. For example, in the $40-50,000 income range, 90% of households pay less than 6% of their income on property taxes.

Chart 9a.

DISTRIBUTION OF PROPERTY TAX IMPACT.
ONTARIO HOUSEHOLDS WITH INCOMES OF $40,000-$50,000

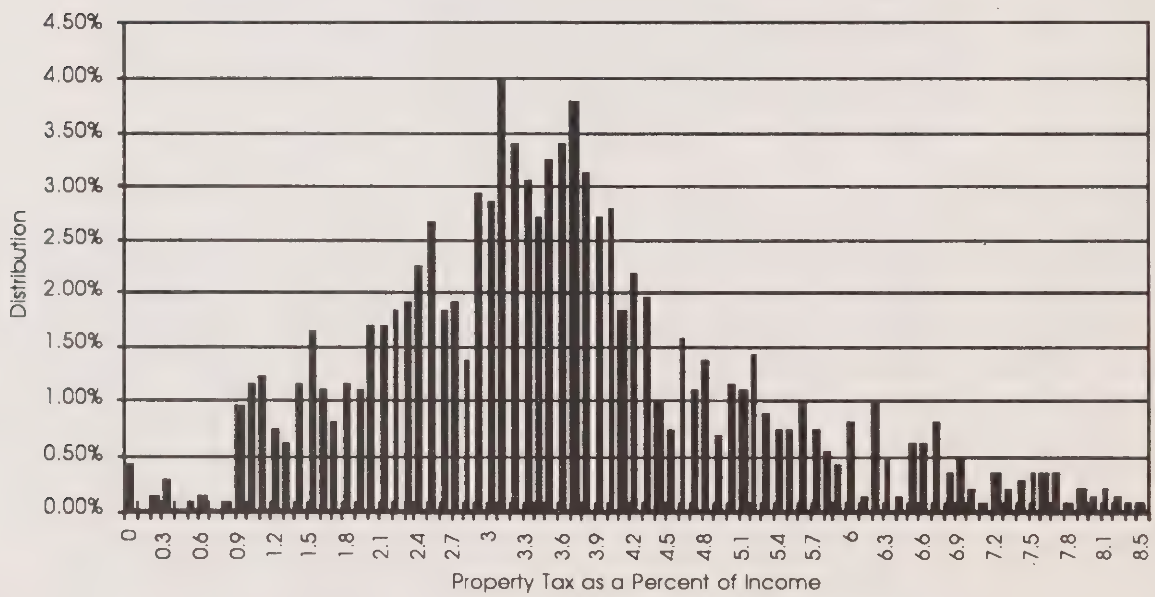


Chart 9a presents the same information that is described in the text following chart 9, but in chart form. It is a "cross-section" of chart 9, showing the distribution of property tax impacts for households in the $40-50,000 income range.

Charts 9 and 9a illustrate two key points. First, the range of property tax as a percentage of household income in each income range is very broad. Looking again at the $40-50,000 income range, the chart shows that half of all households with income in this range pay between 2.5% and 4.5% of their income in property tax. However, one quarter pay more than 4.5%; one quarter pay less than 2.5%. This illustrates very

clearly the problems of horizontal equity with property tax. Households in similar financial circumstances pay very different amounts of property tax. Second, chart 9 shows plainly the familiar regressive profile of the residential property tax. Property taxes are shown as declining as a percentage of household income over the entire income range, with a much higher degree of variability at lower income levels than at higher income levels.

In addition to the aggregate study for the entire province using Statistics Canada's model, the Fair Tax Commission has also commissioned its own study. This study will, for the first time in Canada, measure the relationship between property taxes and income using actual assessment data to measure property taxes and actual incomes from federal personal income tax data to measure household incomes. Although the database was created primarily to test hypotheses about the relationship between changes in property taxes and changes in the sale prices of houses and to compare different approaches to assessment of individual properties, it was also used to generate property tax impact information at the local level.[7]

The local level focus adds an important dimension to the analysis. One of the problems with conducting an analysis of property taxes at the provincial level is that differences in both the services provided by local government and the system of assessment from community to community have an impact on individual property tax levels that could colour the results of the analysis. With a local level focus, these differences do not come into play. Another concern is that rental property (which is taxes at a higher rate than owner-occupied property in Ontario) and owner-occupied properties are mixed together in traditional studies of tax impact. In this study, these types of property are analyzed separately. In the first phase of the study the focus was on owner-occupied single-family dwellings.

Two communities were studied in the first phase of this project: the Town of Pickering in the Regional Municipality of Durham and the City of Etobicoke in Metropolitan Toronto. These studies used income tax records to generate household income data and then linked these household data to the assessment and property tax data for the residence of the household. The findings for both areas were similar. Overall, the pattern in each case was regressive: property taxes declined as a percent-

7 Final results of this study will be available in a forthcoming publication of the Fair Tax Commission's research program.

The study draws data from three sources: individual income tax records from Revenue Canada for all income tax filers in Ontario; assessment and enumeration data for each residential property in the province from the Assessment Division of the Ontario Ministry of Revenue; and for communities which are not operating on an updated market value assessment system, the most recent market value estimates from Ministry of Revenue reassessment studies.

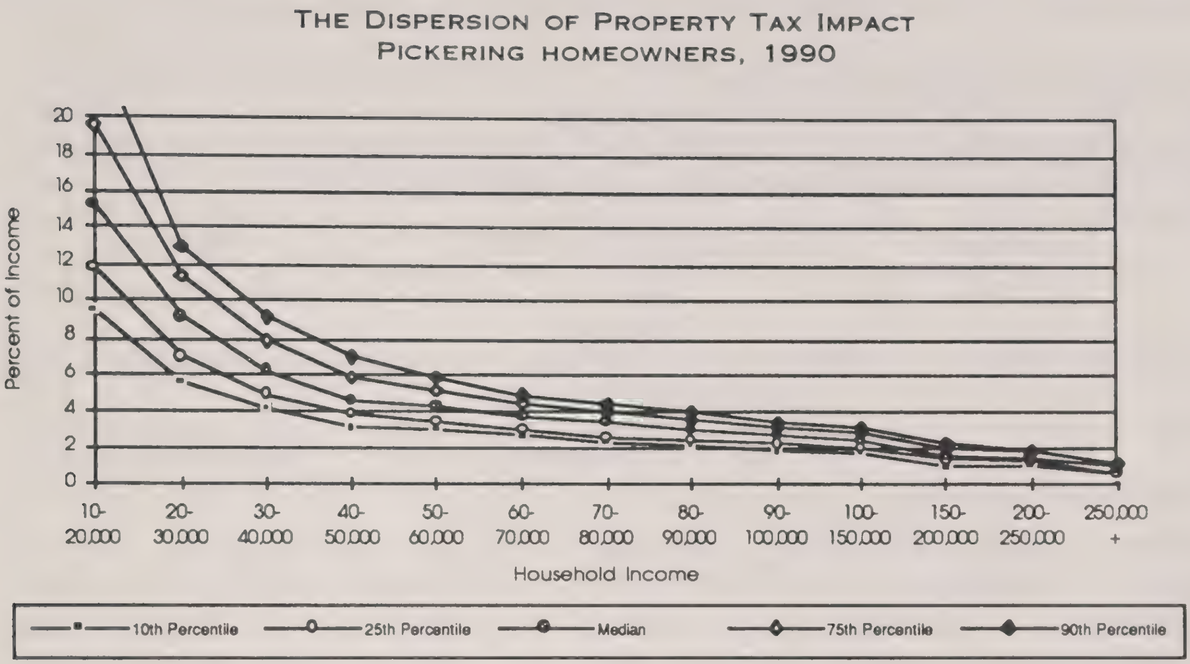
The first step in the study was to create household income data from the income tax database. These households were then matched to individual property assessment and estimated market value records from the Ministry of Revenue to create a database which linked household income and a variety of information maintained by the Ministry of Revenue, including various physical measurements of the property occupied by the household as well as its assessment and current estimated market value.

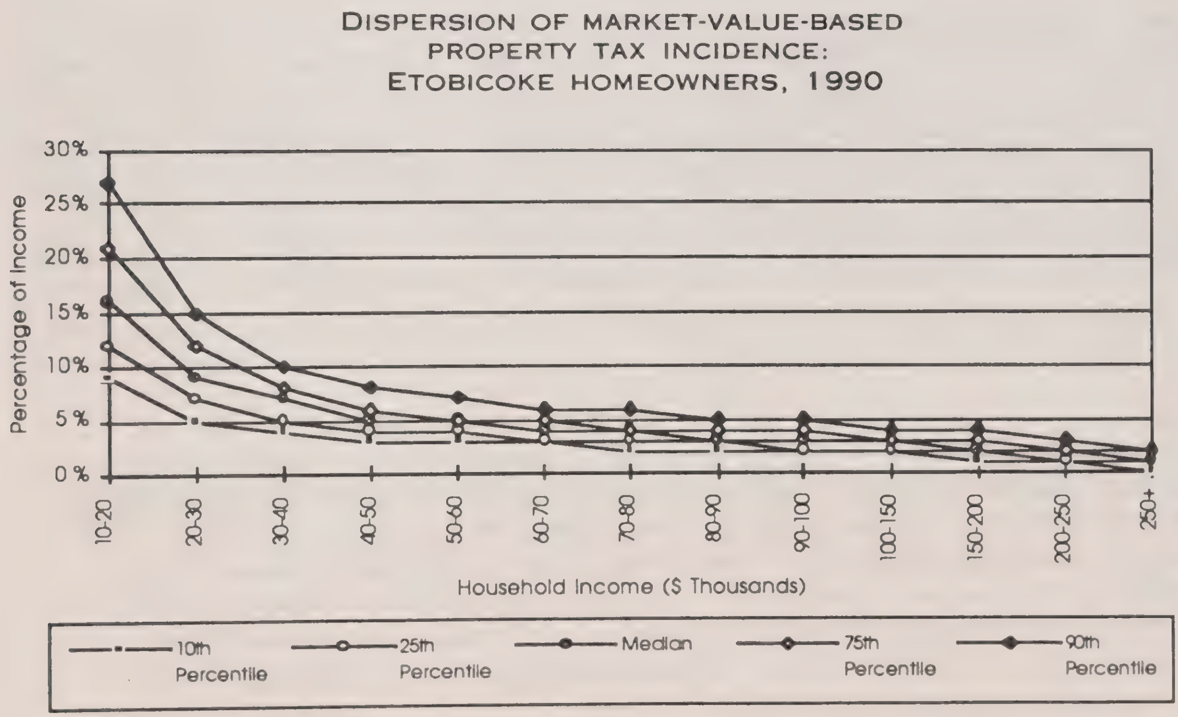
The summary information presented in this report is drawn from an analysis of this combined database.

age of household income as household income increased. As was the case for Ontario as a whole, however, within income ranges, the assessed value of property and the household income impact of property taxes varied very widely. These variations are illustrated in the charts below.

Charts 10a and 10b are in the same format as chart 9. They are intended to illustrate both the overall pattern in the relationship between property taxes and household income and the spread in impact within income ranges.

Charts 10a & b





Taken together, these studies demonstrate that there is no direct relationship between the assessed value of residential properties and the incomes of the households. Averages for each income range show a strongly regressive pattern. However,

the data show that the effective tax rates for individual households range widely around these averages. The variations within those ranges are so substantial that, at the individual household level, there is essentially no statistical relationship between income and the assessed value of residential property occupied.

The statistical relationships among income and various household characteristics were measured directly, using correlation analysis.[8] The results are summarized in Table 1a. In general, they show that there is an extremely weak correlation between household income and any characteristic of the residential property occupied by the household.

Table 1a[9]
PERCENTAGE OF VARIATION IN HOUSEHOLD INCOME EXPLAINED BY DIFFERENT FACTORS

Factor	Town of Pickering	Etobicoke
Market value assessment	3.0 %	7.5 %
Number of adults in the household filing income tax returns	5.8 %	4.1 %
Gross floor area of house	2.0 %	4.8 %

For the households analyzed in Pickering and Etobicoke, there is virtually no relationship between any measure of the size or value of a residential property and total household income of all occupants. In Pickering, only 3% of the variation in market values is explained by variation in household incomes. In Etobicoke, the association between household incomes and property values is slightly stronger, but even there, only 7.5% of the variation in property market values is explained by variations in income. In both municipalities, a poll tax on income tax fillers would have been almost as well related to ability-to-pay as a market-value-based property tax.

8 The correlation between items is a measure of the tendency of the values to move together. (i.e., as one increases or decreases, so does the other). Correlation indicates an association between values of two variables; it does not prove causation. For a complete definition, refer to glossary.

9 Samples are confined to single-family residences (detached, semi-detached and row houses). Sample size: Pickering, 8,952 households; Etobicoke, 26,816. "Household income" is total income from income tax returns of all fillers in household. The correlations corresponding to the entries in the table are as follows:

	Town of Pickering	Etobicoke
Market value assessment	.17	.27
Number of adults in the household filing income tax returns	.24	.20
Gross floor area of house	.14	.22

Major factors affecting market value assessment are displayed in Table 1b. In these two municipalities, the most important of these factors is the total floor space in the house. The property tax is much closer to a tax on gross floor area than to a tax on ability-to-pay as measured by total household income.

Table 1b[10]

PERCENTAGE OF VARIATION IN MARKET VALUE ASSESSMENT EXPLAINED BY DIFFERENT FACTORS

Factor	Town of Pickering	Etobicoke
Gross floor area of house	79.2 %	39.3 %
Number of adults in the household filing income tax returns	0.01 %	1.4 %
Household incomes	3.0 %	7.5 %

The strong conclusion that emerges from these data is that the property tax performs poorly as a tax based on ability-to-pay, when ability-to-pay is measured by household income. This conclusion would appear to hold whether the measurement base for property assessment is market value (as estimated by provincial assessors) or the physical character of the structure occupied by the household.

Property tax as a wealth tax

It is often contended that, while the property tax may not be very closely related to income, it is justifiable in that it taxes a form of wealth and thus is related to another measure of ability-to-pay. The argument is that because other forms of wealth are not taxed, the property tax is to some minimal extent offsetting a gap in the tax system.[11]

An analysis of patterns of wealth originally prepared by Ernst and Young[12] shows that there is a very weak relationship between the value of residential property

---

10 Sample definition as described in footnote #1 on previous page. The correlations corresponding to the table entries are as follows:

	Town of Pickering	Etobicoke
Gross floor area of house	.90	.61
Number of adults in the household filing income tax returns	.014	.12
Household incomes	.27	.17

11 H. Kitchen, "Property Taxation as a Tax on Wealth: Some New Evidence". Canadian Tax Journal, July -August 1987, v. 35, #4

12 Ernst & Young, The Wealth Report Vols 1 & 2 (Toronto: Ernst & Young Management Consultants, 1990)

owned and overall net wealth[13]. The value of residential property declines as a percentage of net wealth as income increases. These data also suggest, and other data from Statistics Canada confirm, that residential property values also drop as a percentage of net wealth as net wealth increases. The property tax is not a comprehensive tax on household net wealth. It is a tax on only one component of wealth. Because residential property is the primary component of the wealth holdings of households with low and moderate incomes, the property tax as a wealth tax is regressive. There is no reason to believe that the value of residential property holdings is any more reliable as an indicator of household net wealth than it is of household income. In addition, if property tax were to be seen as a tax on wealth, there would be no justification at all for taxing tenants.

Chart 11.

PROPERTY VALUE AS A PERCENTAGE OF NET WEALTH, BY INCOME IN ONTARIO. 1989

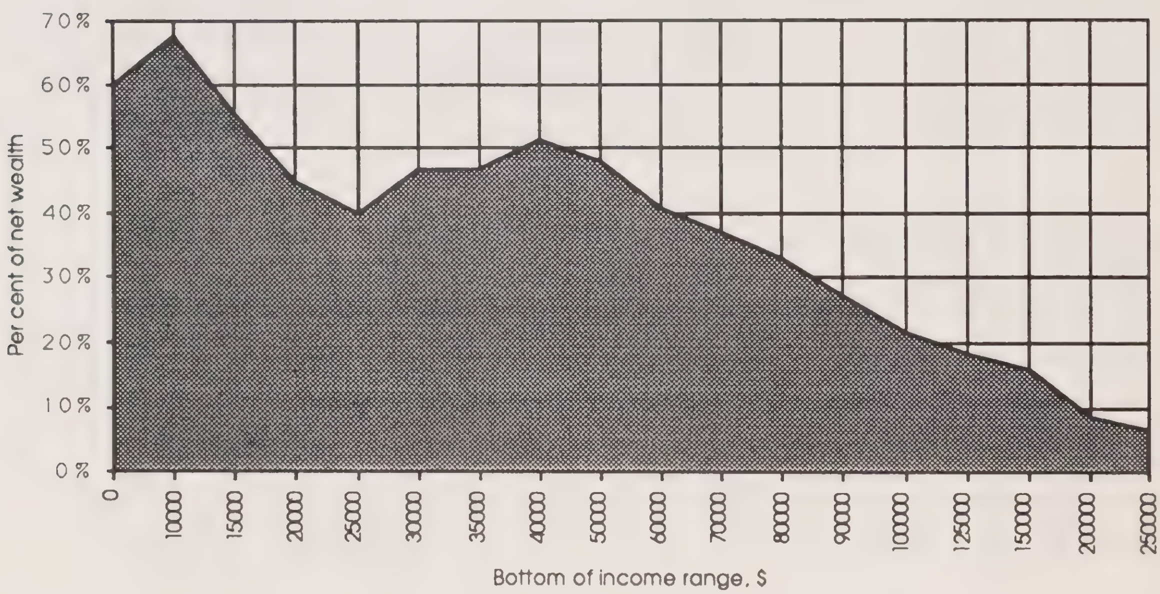


Chart 11 shows an interesting pattern in the relationship between income and property value as a percentage of net wealth. In the lower-income ranges, home ownership is concentrated among older people whose incomes are low but are living on savings or are "over-housed". This phenomenon is represented by the high net wealth percentage in the $10-15,000 income range. As incomes increase, the households represented are more likely to be tenants who may have little net wealth but

13 Wealth is defined as the total assets, both liquid (e.g. savings, stocks & bonds) and non-liquid (e.g. personal residence, pension plans), of a household. Net wealth is calculated by deducting liabilities (e.g. mortgages and personal debts) from total assets. Definitions taken from Ernst and Young, The Wealth Report, Vol. I p.3.

own no residential property. This shows up in the lower net wealth percentages in the $20-30,000 income range. Above income ranges in which home ownership is more common, the overall negative relationship between household income and the percentage of net wealth held in owner-occupied housing declines. This pattern is illustrated in the continuous downward trend in the housing-net wealth percentage for households with incomes above $40,000. The most wealthy households invest less of their total assets in the house they occupy.

Property taxes and benefits received

The extent to which property tax can be viewed as fair on the basis of benefits received principle depends primarily on what services are funded from the tax. For some of the services currently funded from property taxes, direct user charges would be better related to benefits received than property tax. For other services, spillover benefits to other jurisdictions, difficulties in attributing benefits to particular individuals and/or the income redistributive nature of the service itself make the benefits principle either difficult to apply or inappropriate. In general, however, given the current mix of services funded from property taxes, it would not be reasonable to evaluate the property tax solely as a benefits tax.

The relationship between perceptions of the fairness of property tax and the services funded from the property tax underlies much of the public concern about property taxes in Ontario. Two general lines of argument are advanced. One suggests that services such as education and general welfare assistance that serve broad provincial public policy objectives should not be funded from local property taxes.[14] This concern underlies much of the recent public resistance to property tax increases in many parts of Ontario. A second general argument suggests that it is not fair to require people who do not make use of a service to pay property taxes to support that service. For example, some groups of property taxpayers such as seniors, cottagers, and others who do not have children in the local school system take the position that they should not have to pay taxes designated for education because they do not use the service.

The first argument is based on the proposition that revenue sources to fund a service should be appropriate to the service being funded. It leads to the conclusion that certain services would more fairly be funded by taxes other than property taxes that are better related to ability-to-pay. The second argument is based on the proposition that the property tax should be seen as a kind of fee for service that should vary with the level of service received by the individual taxpayer. It leads to the conclusion that property taxpayers who do not use a particular service should be exempted on an individual basis from paying the tax.

14 This division of local services into those appropriately funded from local property taxes and those more appropriately funded from more broadly based taxes is one of the foundations of the argument for provincial/local disentanglement advanced in the Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship, 1991, otherwise known as the Hopcroft Report.

While the net effect of each argument might be similar as far as those taxpayers making the second argument are concerned, they reflect quite different views of the property tax. The working group views the property tax, not as equivalent to a user fee paid by individual taxpayers for locally provided services, but as the principal source of general tax revenue for local government in Ontario. The group makes a clear distinction between the relationship between tax and services in evaluating the fairness of property taxes generally, and the argument that differences in service access should affect the taxes paid by individual property taxpayers.

The working group believes that the appropriate response to concerns about education funding from the property tax is to address the appropriateness of the property tax for education funding generally and not to exempt individual taxpayers from tax based on their use of educational services.

Conclusions: How to achieve fairness

The working group's conclusions on this subject are as follows:

> CONCLUSION #1 – FAIRNESS IN LOCAL FINANCE
>
> **Services currently funded by local government should be divided into three broad categories:**
>
> - **services for which the cost should be distributed on the basis of ability-to-pay;**
> - **services for which fairness suggests the cost should be distributed among the users of the service based on their share of the total consumption of the service;**
> - **remaining services for which fairness suggests that the cost should be distributed on the basis of the assessed value of property.**
>
> **The application of an ability-to-pay standard will differ between residential (owner-occupied and rental), and business (commercial and industrial) properties.**

This general approach to fairness has a number of implications which motivate many of the specific recommendations that follow in this report.

CONCLUSION #2 – IMPLICATIONS OF FAIRNESS

Ability-to-pay.

- Where feasible, services which have income redistribution as a direct or indirect objective or which generate spillover benefits beyond local boundaries should be funded from taxes based on ability-to-pay.
- These services would include:

  education;

  welfare;

  alternative-to-market services which are provided on a subsidized basis, such as child care and homes for the aged.
- To the extent that a proportion of the costs of these services must be funded from property taxes, equalization directed towards the funding of these services should be based on ability-to-pay as measured by average household income.
- Individual property tax relief should be directed towards the impact of taxes on household income for the support of those services.
- Fairness in the revenue raising system can best be improved through changes in the tax mix used to fund certain of the services currently funded from all local revenue sources.

User fees.

- The role of user fees for financing local services should be expanded where the use of such fees meets fairness and appropriateness criteria.[15]

In addition to the fairness criteria, the working group considered and adopted other criteria for evaluating proposals for tax change. It must be noted that not all criteria will be met equally and simultaneously by all taxes.

15 See recommendations under "User fees".

CONCLUSION #3 – OTHER CRITERIA FOR EVALUATING TAX CHANGES

Flexibility: a tax should be sufficiently flexible to permit revenues to be increased or decreased in response to changing circumstances.

Neutrality: a tax should minimize unintended changes in behaviour.

Certainty: a tax should be designed so that the timing and method of calculation of the tax is known to the taxpayer.

Simplicity: a tax should be straightforward and intelligible.

Stability: the base for a tax should be as stable as possible over time.

Administrative fairness: a tax should be as easy as possible to administer and enforce, should be designed so as to limit potential for avoidance and should provide, to the greatest extent possible, for administrative procedures that are simple and not open to abuse.

Administrative cost: tax collection costs should be minimized as a proportion of the revenue from tax.

These criteria supplement fairness criteria for evaluating the property tax and various options for reform. Many of the criteria above are also linked directly to a more comprehensive view of the idea of fairness. For example, administrative ease and accountability are important elements of fairness. People generally do not accept as fair what they either do not understand or feel that they cannot control. In the same vein, simplicity and clarity in tax system design and effective communication between taxpayers and governments are central to fair tax reform.

II. PROPERTY TAX ISSUES

This section deals with general issues of tax fairness that arise with the property tax. Many of these issues are concerned with the inequities that arise because of the substantial variation among municipalities in tax and assessment policies.

Distinguishing between assessment and tax policy

In most local jurisdictions in Ontario assessment is not a pure measure of the property tax base of the community. Differences in assessment bases between communities reflect a mixture of real differences in assessment and historical differences in taxation policies. The assessment base is not consistent across Ontario. Although the legislative basis for assessment is market value[16], the legislation permits municipaltities to assess the same kinds of property theoretically supposed to be at percentages of market value that vary from community to community. And within the same community, different types of property are assessed at different proportions of their market value.

The result is that it is impossible to compare tax burdens relative to market values between communities by comparing local tax rates. For example, in the Town of Pickering the 1992 residential mill rate[17] is 98.92; in the City of Toronto, the 1992 residential mill rate is 441.83. It would appear from a comparison of the rates that residential taxes are much lower in Pickering than they are in Toronto. This comparison is misleading, however, because Pickering's assessment is based on a different scale of values from Toronto's. In Pickering, the Ministry of Revenue estimates that single-family residential property is assessed on average at 11.0% of the market value of the property. In the City of Toronto, single-family residential property is assessed at approximately 1.5% of market value.[18]

These differences make the system extremely complicated, not only for taxpayers but also for the administration of provincial programs. It is not possible to compare the assessments in Pickering and Toronto using the assessments on the official assessment roll. The figures are misleading. It is also not possible to compare tax rates based on the figures that are debated and approved by the local councils each year. For example, Toronto's tax rate on residential property appears to be outrageously

16 In the analysis that follows, assessment systems are compared in relation to the current requirement in the Assessment Act that properties be assessed based on their market value. In using this theoretical basis for the current assessment system to identify and measure differences in assessment systems, the working group is not endorsing market value as the basis for assessment in Ontario.

17 The terms "tax rate" and "mill rate" are used interchangeably in this report. A "mill" is one tenth of a cent. The term "mill rate" in Ontario is the number of dollars in tax on an assessed value of $1,000.

18 Except where otherwise noted, figures comparing assessments on the basis of percentage of market value are based on assessment equalization factors developed by the Ontario Ministry of Revenue for the year 1990.

high relative to Pickering's until one takes into account the fact that a house worth $200,000 in Toronto is assessed at $2,940 whereas a house worth the same amount in Pickering is assessed at $21,900. This produces a property tax bill of $2,146 in Pickering and $1,296 in Toronto.

Table 2 illustrates the problem created by the diversity in assessment systems[19] . In this sample of 31 municipalities, taxable assessment on single-family residences varies as a percentage of estimated market value from a low of 1.5% for the City of Toronto to a high of 41.5% for the City of Barrie. Commercial property assessment varies from a low of 2.1% in Gloucester Township in Ottawa-Carleton to a high of 58.8% of market value in the City of Barrie. Obviously, any simple comparison of mill rates among these municipalities would be meaningless.

The charts that follow Table 2 show the distribution of assessment to value percentages for single-family residences and multiple residences of up to six units (assessment classes 0 and 1 combined)[20], multiple residences with seven or more units and commercial and industrial property for all municipalities in Ontario. In all classes of property, there is a substantial degree of variation in assessment-to-value relationships across the province.

19 The assessment-to-value percentages used for tables 2 and 3 are taken from the MARS (Municipal Analysis and Retrieval System) database maintained by the Ministry of Municipal Affairs. They are based on market value equalization factors estimated from 1990 property values.

20 For the purposes of these charts, assessment classes 0 (single residences, duplexes, and condominiums) and 1 (small multiples with 3-6 units) are combined. Class 1 is only identified as a separate class for some municipalities. For others, classes 1 and 0 are combined in the data. To ensure that the charts are consistent, these two classes are combined for all municipalities. In Tables 2 and 3, class 1 data are presented separately, where available. Where data for class 1 are not available separately, the data under class 0 are for properties with 1-6 units.

Table 2.

ASSESSMENT AS PROPORTION OF ESTIMATED MARKET VALUE 31 SELECTED LOWER-TIER MUNICIPALITIES, ONTARIO 1990.

	Taxable assessment as percent of market value					
	Residential			Comm.	Industrial	Farm
	Single 1-2	Multiple 3-6	Multiple 7 +			
Municipal Name	Class 0	Class 1	Class 2	Class 3	Class 4	Class 7
Ajax T	10.9%	-	26.1%	11.4%	15.9%	26.3%
Barrie C	41.5%	-	43.6%	58.8%	58.6%	69.9%
Brampton C	12.2%	-	19.8%	10.2%	16.2%	16.6%
Burlington C	3.6%	-	8.7%	3.6%	5.9%	5.0%
East York B	1.7%	3.2%	8.1%	3.8%	6.4%	-
Etobicoke C	2.1%	3.4%	8.2%	4.3%	7.2%	-
Gloucester C	2.8%	-	3.7%	2.1%	3.1%	3.8%
Guelph C	8.8%	-	21.1%	13.3%	20.3%	25.9%
Hamilton C	3.3%	3.8%	7.8%	6.4%	7.9%	4.0%
London C	4.3%	-	9.1%	5.1%	8.1%	4.2%
Markham T	9.5%	-	17.7%	11.0%	11.5%	12.4%
Mississauga C	13.1%	-	21.9%	13.1%	16.5%	19.8%
Nepean C	2.1%	-	4.2%	2.2%	3.1%	2.1%
Newmarket T	9.4%	-	13.8%	7.6%	9.4%	17.3%
Niagara Falls C	3.7%	-	7.1%	5.5%	10.7%	4.3%
North York C	2.0%	3.7%	7.8%	5.3%	4.4%	3.1%
Oakville T	3.2%	-	7.1%	3.2%	5.3%	5.6%
Oshawa C	4.7%	5.2%	9.9%	6.4%	15.3%	4.8%
Ottawa C	4.0%	-	8.5%	4.7%	4.7%	-
Peterborough C	3.7%	-	5.2%	5.8%	8.9%	5.4%
Pickering T	10.9%	-	18.9%	15.5%	15.0%	20.0%
Richmond Hill T	9.2%	-	15.7%	6.7%	10.8%	12.4%
Sault Ste Marie C	9.0%	-	13.6%	11.6%	14.6%	8.5%
Scarborough C	2.2%	2.7%	7.6%	5.3%	5.0%	2.4%
St Catharines C	3.6%	4.7%	7.9%	4.9%	8.3%	3.0%
Thunder Bay C	3.5%	-	9.8%	6.5%	8.0%	4.6%
Toronto C	1.5%	1.8%	6.3%	4.7%	4.9%	-
Vaughan T	9.8%	-	11.2%	8.9%	13.8%	17.6%
Whitby T	2.8%	3.0%	5.0%	2.4%	4.4%	4.2%
Windsor C	8.8%	-	16.5%	11.3%	17.7%	9.1%
York C	1.8%	3.0%	6.2%	3.4%	9.5%	-

For example chart 12 shows that there are approximately 175 municipalities in which assessment for residential property with 1-6 units is between 1% and 2% of market value. In approximately 120 municipalities, assessment is at less than 1% of estimated market value. In 110 municipalities, assessment is at between 2% and 3% of estimated market value. In 121 municipalities, assessment exceeds 20% of estimated market value. These variations and those shown in the charts that follow are so substantial that it is easy to forget that theoretically and in law, there is a common basis for assessment – market value – for the entire province.

Chart 12.

TAXABLE ASSESSMENT AS A PERCENTAGE OF VALUE.
RESIDENTIAL 1-6 UNITS (CLASSES 0 AND 1)
DISTRIBUTION OF MUNICIPALITIES. ONTARIO, 1990

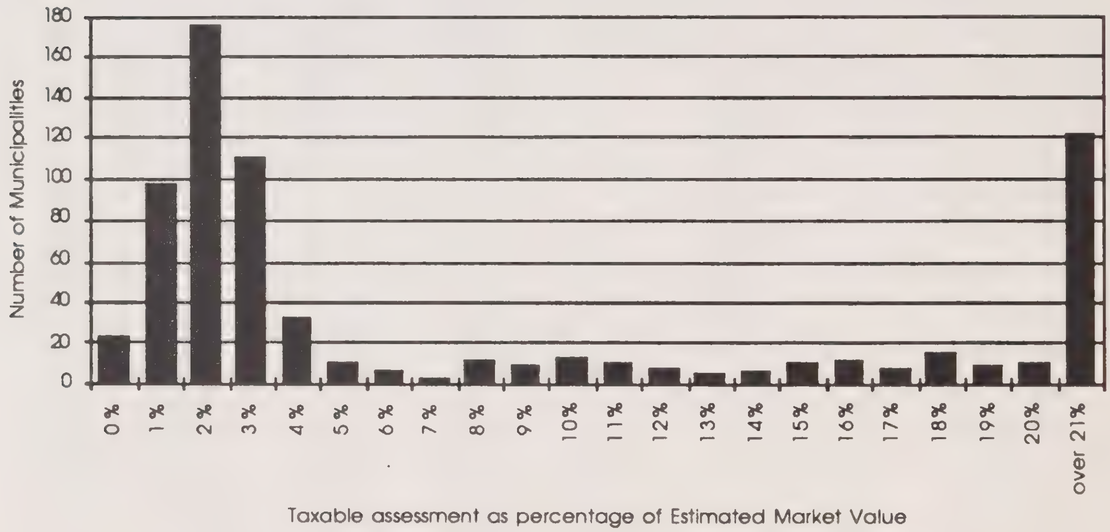


Chart 13 shows for multiple residences (7+ units) a similarly wide variation in assessment-to-value percentages, but also illustrates the higher assessment-to-value percentages for apartments than for single residences, that is typical throughout Ontario. Whereas the assessment-to-value percentage for single residences is clustered around the 1-3% range, for multiple residences (7+ units) it is clustered around the 5-6% range.

Chart 13.[21]

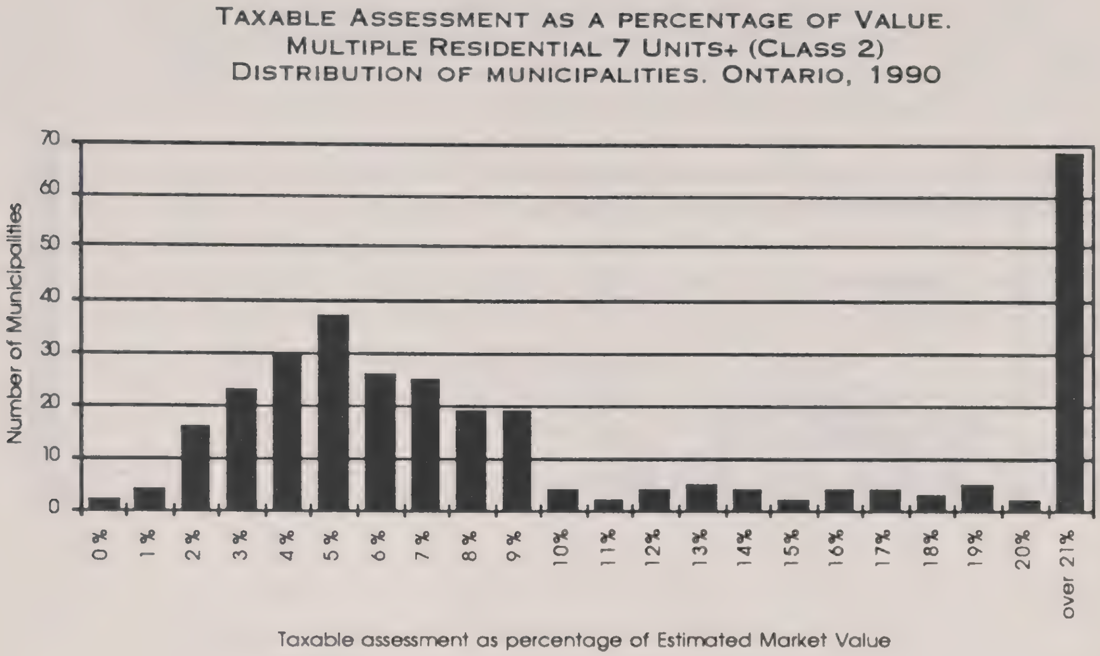
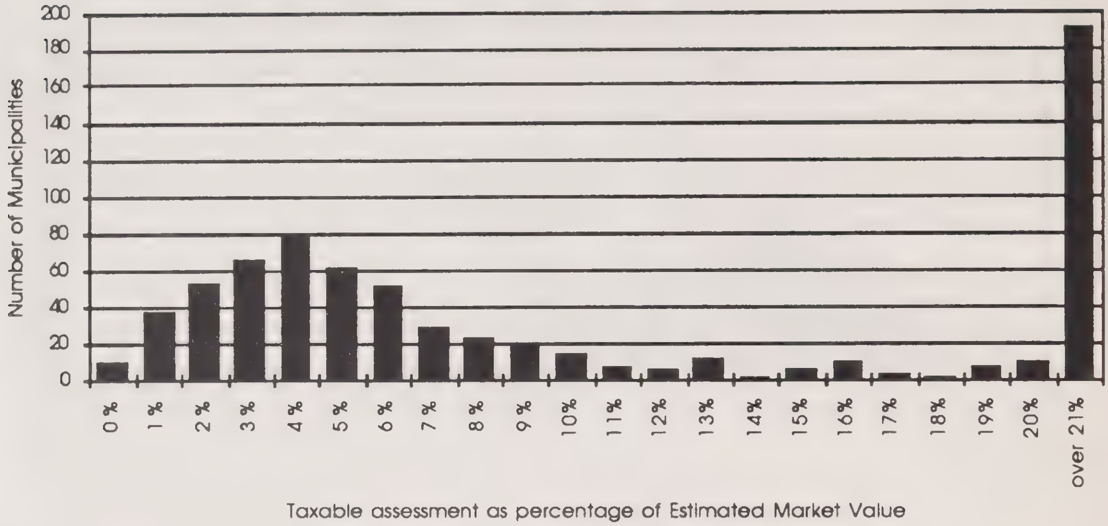


Chart 14 for commercial and industrial assessment shows the higher assessment-to-value percentages for this class as compared with single residences. It shows a concentration in assessment-to-value percentages in the 4% range. As compared with chart 13, it also illustrates the broad similarity in assessment as a percentage of value between apartment buildings and commercial and industrial property.

21 Because many smaller municipalities have no residential assessment in buildings with more than 6 units, the numbers of municipalities to which this chart applies is smaller than the number for the chart.

Chart 14.

TAXABLE ASSESSMENT AS A PERCENTAGE OF VALUE.
COMMERCIAL (CLASS 3) AND INDUSTRIAL (CLASS 4)
DISTRIBUTION OF MUNICIPALITIES. ONTARIO, 1990



Within communities, assessment practices vary. Different classes of property within a community are assessed at different percentages of market value. In the City of Toronto, single-family residential property (including owner occupied condominium units) is assessed at 1.5% of value; high-rise rental property is assessed at 6.3% of value.[22] Commercial property is assessed at 4.7% of value; industrial property is assessed at 4.9% of value. In other jurisdictions, the various classes of property are assessed at quite different percentages of their estimated market value. This makes comparisons between jurisdictions difficult. It also serves to obscure from public view substantial differences in effective tax rates[23] on different classes of property.

As a general rule, single-family homes across Ontario are assessed at a much lower percentage of estimated market value than rental units in multiple-unit buildings.

---

22 To facilitate comparison, the figures quoted in the text for the City of Toronto are calculated from Ministry of Revenue equalization factors based on a 1990 sales analysis. On a Metro-wide basis, the 1988 market value reassessment impact study released in August, 1992 show residential (1-2 units) at 2.2% of 1988 market value; residential (3-6 units) at 2.7%; residential (more than 6 units) at 8.0%; commercial at 4.3%; and industrial at 6.0% of market value.

23 The term "effective tax rate" refers to the rate of tax actually paid as distinguished from the "nominal" rate of tax specified in legislation or approved by local council. For example, a nominal tax of 300 mills or 30% on a property assessed at 10% of its value is equivalent to an effective tax rate of 30 mills or 3% if assessed at 100% of its value. Where the basis for assessment differs between jurisdictions, effective tax rates provide the only consistent standard for comparison.

Although the common tax rate for these different classes of residential property gives an impression of uniformity, tenants are effectively being taxed at a much higher rate (based on the value of the unit they occupy) than owner-occupiers. In another comparison, commercial property in most parts of Ontario is assessed at a lower percentage of value than industrial property. Again, this means that hidden behind the single commercial/industrial tax rate is a higher effective tax rate on industrial than on commercial property.

The data above dramatically illustrates the lack of consistency across Ontario in property assessment for tax purposes. At the same time, the data also point towards the problems that would result from the establishment of a completely uniform assessment system in Ontario with no variation in tax policy at the local level.

Uniformity in the abstract is not a legitimate goal for the system but must be justified on its own merits. Furthermore, a uniform system in the abstract does not fully address the issue of clarity to taxpayers. The objective of clarity must also be realized in the design of the system, whether or not it is uniform across the province.

The working group concluded that the interests of fairness for taxpayers would be best served by a single, consistent and equitable assessment system in Ontario. At the same time, however, the group concluded that local autonomy is appropriate for taxation policies, as long as the tax policy decisions are explicit, clear to the local taxpayer and consistent with provincial standards.

> RECOMMENDATION #1 – ASSESSMENT AND TAXATION
>
> **The distinction between assessment policy and taxation policy must be made clear. The authority to tax should be distinguished from the authority to assess.**
>
> **The provincial government should continue to be responsible for assessment throughout Ontario. There should be one consistent, equitable province-wide assessment system.**
>
> **Taxation should be a responsibility of local government, subject to clear provincial guidelines.**

Tax rate policy

The residential and farm tax rate is currently set in legislation at 85% of the commercial and industrial mill rate. However, substantial differences in assessment policies mean that there are also substantial variations in the real relationship between residential and commercial/industrial tax rates across Ontario. The following analysis looks at the real relationship between tax rates, first in table form (for 31 selected municipalities in Ontario which have tax collection responsibilities) and then graphically (for all municipalities in Ontario). For residential (single-family and multiple) and industrial property, the relationship between the effective rate of tax on each class of property and the effective rate of tax on commercial property was calculated and expressed as a percentage. The resultant tax rate relationships can be compared with the legally mandated figures of 85% between residential tax rates and

the commercial tax rate and 100% between the industrial tax rate and the commercial tax rate.

The figures in Table 3 show how widely actual tax relationships vary from this theoretical norm. In the City of North York, for example, the effective tax rate on single residences is 32% of the effective commercial tax rate; the effective tax rate on small multiple residences is 60% of the effective commercial tax rate; the effective tax rate on large multiple residences (apartment buildings) is 125% of the effective commercial tax rate; and the effective industrial tax rate is 84% of the commercial tax rate.

It should be noted that rent controls have effectively reduced the market value of apartment buildings. Since taxes remain the same, this increases the effective tax rate on the property without affecting either the actual tax paid or its impact on the tenants.

Overall within the group of 31 municipalities, we find that the relationship between the effective tax rate on residential property and the effective tax rate on commercial property ranges from a low of 27% in the City of Toronto to a high of 117% in the Town of Richmond Hill. For large rental residential properties, the relationship varies from a low of 63% of the effective commercial rate in Barrie to a high of 203% in the City of Burlington. There is even a very wide variation in effective tax rate relationships between the industrial class and the commercial class. Effective tax rates on industrial property range from a low of 84% of the effective commercial rate in North York to highs of 238% and 279% in Oshawa and the City of York respectively.

Table 3.
EFFECTIVE TAX RATE IN CLASS RELATIVE TO COMMERCIAL TAX RATE
31 SELECTED LOWER-TIER MUNICIPALITIES, ONTARIO 1990.

Municipal Name	Residential			Industrial
	1-2units	3-6 units	7+ units	
	Class 0	Class 1	Class 2	Class 4
Ajax T	81%	-	195%	140%
Barrie C	60%	-	63%	100%
Brampton C	101%	-	164%	158%
Burlington C	83%	-	203%	163%
East York B	39%	73%	184%	169%
Etobicoke C	42%	66%	162%	168%
Gloucester C	112%	-	149%	148%
Guelph C	56%	-	135%	153%
Hamilton C	44%	51%	104%	124%
London C	71%	-	151%	157%
Markham T	74%	-	137%	105%
Mississauga C	85%	-	142%	126%
Nepean C	80%	-	162%	140%
Newmarket T	105%	-	155%	124%
Niagara Falls C	56%	-	109%	194%
North York C	32%	60%	125%	84%
Oakville T	84%	-	187%	165%
Oshawa C	62%	69%	131%	238%
Ottawa C	72%	-	153%	100%
Peterborough C	54%	-	77%	154%
Pickering T	60%	-	104%	97%
Richmond Hill T	117%	-	200%	162%
Sault Ste Marie C	66%	-	100%	126%
Scarborough C	35%	43%	122%	93%
St Catharines C	63%	82%	136%	169%
Thunder Bay C	46%	-	129%	123%
Toronto C	27%	33%	115%	105%
Vaughan T	94%	-	107%	156%
Whitby T	98%	105%	173%	179%
Windsor C	66%	-	124%	157%
York C	46%	76%	153%	279%
Legally mandated tax rate relationship	**85%**	**85%**	**85%**	**100%**

These differences in effective tax rates have significant implications for current public policy issues. For example, concern is often expressed about the decline in the health of Ontario's manufacturing sector. These data, together with chart 17, show clearly that industrial property pays higher effective tax rates than commercial property in this province. There would appear to be some conflict between the policy concern and the assessment and tax practice. The differences in effective tax rates shown in these data also lie behind some of the most energetic debates about property taxes, and particularly education taxes, in Ontario. For example, in the urban municipalities in both Peel and York Regions, the effective tax rate on commercial property is much closer to that of residential property than it is in the municipalities in Metropolitan Toronto. Compared with Metropolitan Toronto, in these areas commercial taxpayers pay less tax and residential taxpayers pay more. The results are evident in the dramatically higher education taxes on homes north of Steeles Avenue in York compared with those on similar homes south of Steeles Avenue in Metropolitan Toronto.

Charts 15, 16 and 17 show the extent of the variation in effective tax rates on different classes of property among municipalities across the province. They reveal substantial differences in taxation policies that are apparent only if one looks behind the published tax rates to the basis for assessment within each municipality. In each case, the variations in effective tax rate relationships persist despite the existence of a legally mandated fixed relationship. For residential properties, covered by charts 15 (residential up to 6 units) and 16 (residential 7+ units) the tax rate is established in law at 85% of the commercial tax rate. But this is clearly not reflected in the data. It would be difficult to infer from these data the existence of any legally mandated relationship between tax rates.

Chart 15.

DISTRIBUTION OF EFFECTIVE TAX RATES,
RESIDENTIAL 1-6 UNITS (CLASSES 0 AND 1)
COMPARED WITH COMMERCIAL TAX RATES
ONTARIO, 1990

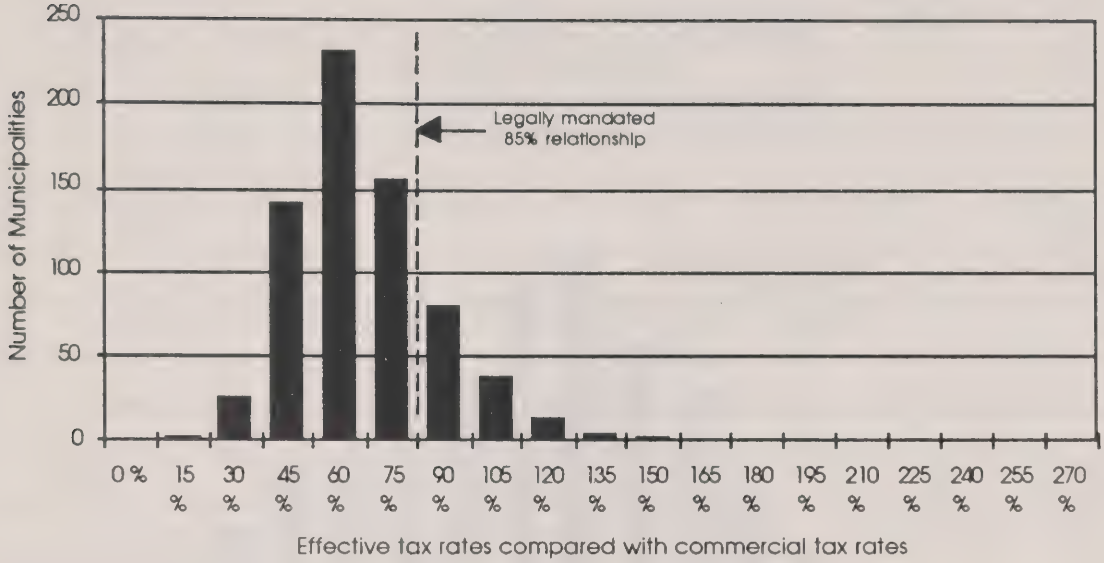
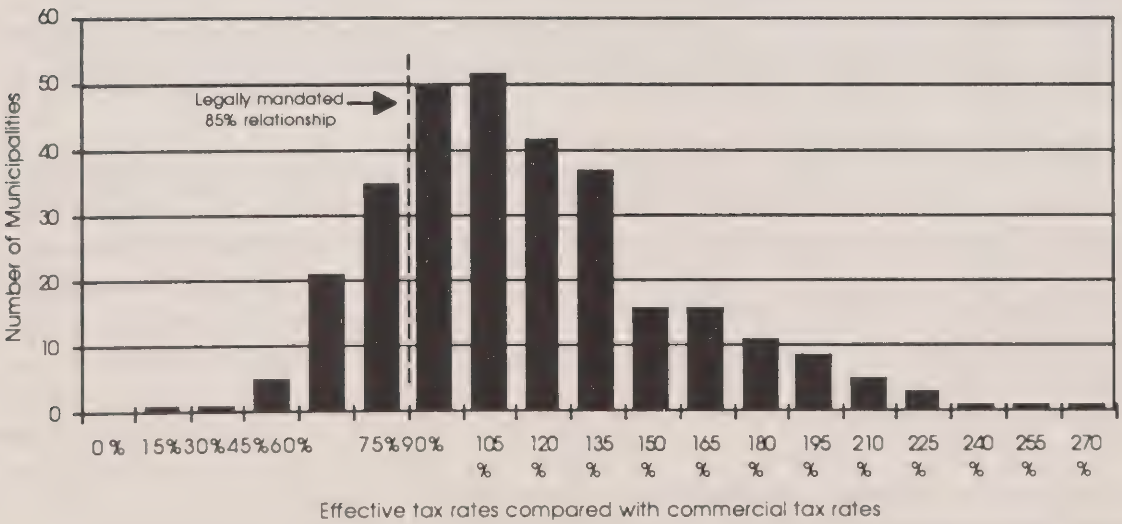


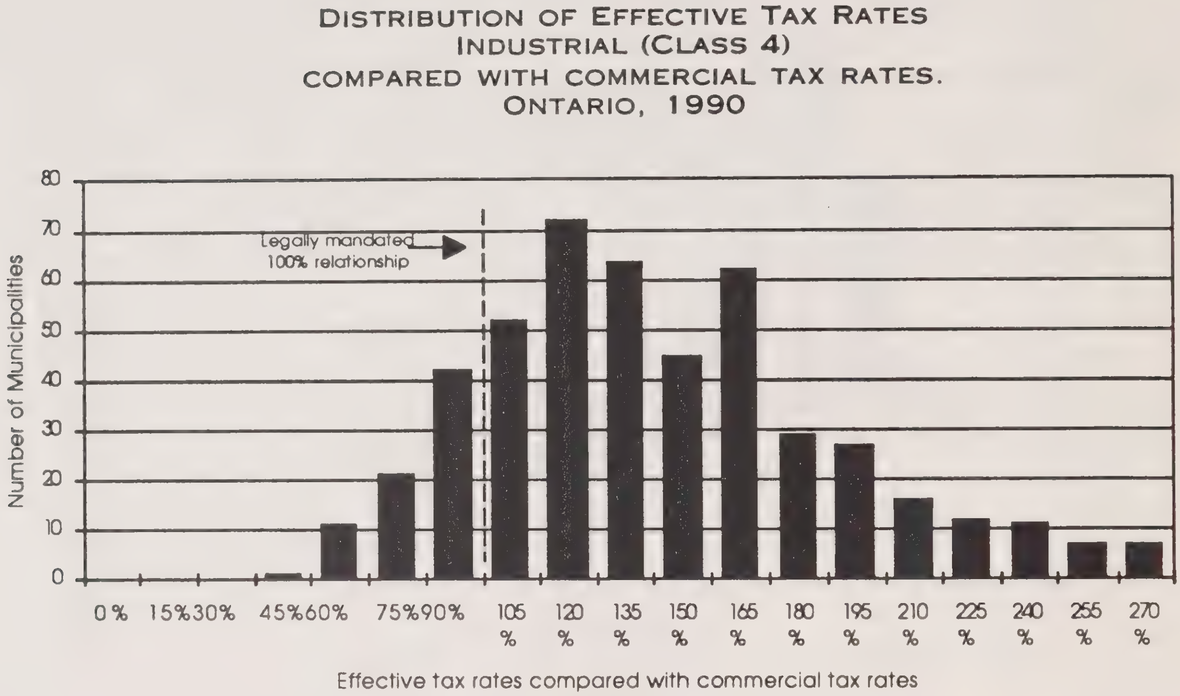
Chart 16.

DISTRIBUTION OF EFFECTIVE TAX RATES
MULITIPLE RESIDENTIAL 7 UNITS+ (CLASS 2)
COMPARED WITH COMMERCIAL TAX RATES.
ONTARIO, 1990



For industrial properties, the tax rate is established by law at 100% of the commercial tax rate. Industrial and commercial are supposed to be taxed at the same rate. According to the data, however, these properties are clearly not taxed at the same rate. The wide variation in actual effective tax rates is shown in Chart 7.

Chart 17.



If a fair and consistent assessment system as recommended above were to be implemented province-wide, the differences in assessment practices that give rise to these differences in the tax rate relationships would disappear. However, if the 85% rule were retained and applied strictly, substantial unplanned shifts in tax between classes of property would result.

There are a number of reasons for municipalities to be permitted some flexibility in tax policy through variation in the relationship between tax rates on different classes of property. First, to the extent that these differences reflect legitimate differences in local tax policies, it would be inappropriate to eliminate them entirely through a change in general provincial legislation. There is no obvious public policy reason why relative tax rates between different classes of property should be identical everywhere in the province. There may be very good public policy reasons why industrial properties should be taxed relatively more heavily in some municipalities than in others, just as provincial governments levy taxes at different relative rates on corporate and personal income. Second, as a matter of general principle, it is desirable where appropriate for local jurisdictions to exercise some tax policy flexibility. Third, substantial variations in tax rate relationships exist now, albeit

without the legal authority for variability, based on explicit or implicit political decisions at the local level. Finally, and perhaps most important from a practical point of view, a uniform assessment system introduced without tax rate flexibility would increase taxes on single-family residences. Thus, any proposed reform that did not offer tax rate flexibility would likely never be implemented.

Four key questions have to be addressed in designing a flexible tax rate system:

- What "classes" of property should be considered distinct classes for tax purposes.
  - Should the residential class of property be divided into subclasses according to the number of units in the structure?
  - Should recreational property be a separate class within the residential class?
  - Should there be separate property classes for commercial and industrial property or further subclasses within these classes?
  - Should farm properties be a separate class?
  - Should vacant land be a separate subclass distinct from improved land?
- Within what ranges or "bands" should the relationships among tax rates be allowed to vary. The present system specifies a fixed relationship of 85% between the residential and farm tax rate and all other tax rates. How much flexibility should be permitted?
- Should the establishment of classes and bands of variation be a provincial power or a local government power?
- Which government should have the responsibility for exercising tax policy power at the local level. There are a number of possible options. Taxation powers could be available to all local governments. These powers could be limited to municipalities as opposed to school boards or, within the municipal sector, to upper-tier or lower-tier municipalities. Alternatively, the power to exercise tax policy could simply reside with the jurisdiction responsible for collecting the tax, in most cases lower-tier municipalities, but in some parts of Ontario, school boards.

This last issue is dealt with in the part of this report specifically devoted to local taxing powers (see Section VII: Which "local" government?).

The issue of tax rate flexibility does raise legitimate concerns. Not every municipality in Ontario has the same share of its assessment base in each class of property. Some municipalities have very large commercial and industrial tax bases. Others are predominantly dependent on residential assessment. Tax rate flexibility leaves open the possibility that municipalities could use their taxation powers competitively, with very significant consequences.

For example, a municipality with a large commercial and industrial tax base could reduce residential taxes and maintain services with a relatively modest commercial and industrial tax increase. A neighbouring municipality with a smaller commercial

and industrial base might be forced to levy much higher taxes on residential property or cut back on services because it could not use its commercial base to keep residential tax rates down.

Alternatively, a municipality with a small commercial/industrial tax base could reduce its tax rates substantially to attract industry at relatively little cost in lost tax revenue. A neighbouring municipality with a larger industrial base would be unable to compete without either cutting services or raising residential taxes to unacceptable levels.

In order to limit the potential for this kind of destructive competition, it is essential that limits be placed on the permitted scope for tax rate variability.

RECOMMENDATION #2 – TAXATION POLICY FLEXIBILITY FOR LOCAL GOVERNMENTS

Local governments should be permitted to exercise policy discretion with respect to the relationship between tax rates on different classes of property. That flexibility should be limited as follows: The provincial government would define classes and the limits of "bands" within which relationships between tax rates on those classes of property would be permitted to vary. Local governments would be permitted to set mill rate relationships within those "bands". The same mill rate relationship should apply to both education and municipal taxes.

For example, municipalities could be permitted to vary the relationship between their commercial and industrial tax rates from a low of commercial rates at 80% of industrial rates to a high of 120%. The largest separate property classes recognized in the current system are single-family residential, multiple residential, commercial, industrial, and farm. Other possible candidates for recognition as separate classes of property for taxation purposes include recreational property and "low-rise" commercial property (local retail properties).

Separate property classes might be established for reasons other than a desire to establish different tax policies for different types of property. Different methods are often used for establishing assessments for certain types of property within one of the recognized property classes. It may be necessary to establish separate property classes to offset differentials created by those different methods. For example, under the market value approach currently applied in the commercial sector, large office towers are generally assessed by capitalizing the income stream from the property, while smaller properties are assessed using sales of comparable properties. Because sales figures include a value attributable to the prospect for future capital gain or losses whereas capitalized rents do not, using the two methods in parallel will produce different values for the properties valued on a sales basis compared with properties valued on a capitalized rent basis. This argues for separate assessment classes for the two types of commercial properties.

Exemptions

Exemptions from property taxation are granted primarily through specific types of exemptions listed in the _Assessment Act_. When a property is granted a tax exemption, it is normally exempt from school taxes as well as municipal taxes. Some of the exemptions stem from provisions of the _British North American Act, 1867_ which reflected the British tradition that junior levels of government should not tax senior levels of government. Others reflect decisions to support institutions which provide services for general public benefit. Exempt property categories include battle sites, hospitals, jails, schools, churches and municipal property. Certain telephone and telegraph facilities (poles, wires, rights-of-way etc.) are also exempt from property tax. As a substitute for property taxation of these facilities, telegraph and telephone companies are subject to a special telephone and telegraph tax. Some improvements to property are exempt, for example, machinery and equipment used in manufacturing.

Organizations not specifically mentioned in the legislation may obtain exemptions through private bills. Approximately five such bills have been passed each year since 1980. Exemption powers granted through private bills flow from the legal status of municipalities as corporations rather than from their status as governments. Private bills generally authorize the local council to exempt property from taxation by bylaw. Under provisions in the _Municipal Act_, municipalities may give grants to organizations deemed worthy of support instead of consenting to, or supporting tax exemptions. Enabling legislation does not exist to permit school boards to provide grants instead of exemptions.

There are a number of serious problems with current practices regarding exemptions.

- Municipalities and school boards have no voice in exemption decisions affecting their tax base except where a private bill specifies the need for a local bylaw.
- The present system is a confusing "hodge-podge" in need of review. For example, the provincial legislature approves individual charities or groups for exemption upon application. That approval comes at the expense of the local tax base.
- Inequities result from the fact that exemptions are often tied to the institution that owns the property rather than the use to which the property is put.
- The exemption for "property held in trust for a band or body of Indians" is an issue in some communities. For example, in the Townships of Bosanquet and Brantford and the City of Sudbury, native bands have purchased off-reserve investment property and are taking advantage of this exemption.
- The present system of exemptions blurs lines of accountability. The use of private legislation involves the provincial legislature in decisions in which it has little at stake financially. Municipalities have also been adversely affected by provincial or federal decisions to close institutions on which payments-in-

lieu of taxes (PILs) are made by the federal or provincial government and to replace them with facilities run by charities which are tax exempt.

- Municipalities and school boards have little or no voice in decisions which remove taxable assessments from their tax rolls. These decisions also reduce the municipalities' share in the apportionment of taxes for upper tier and education purposes. The financial impact of the exemption is shared by the rest of the municipalities within the upper tier and school board areas.

In addition to these particular concerns regarding exemptions as they are treated in the property tax system, exemptions in general raise important questions of principle. From the perspective of taxpayers generally, an exemption from a tax is equivalent to a grant to the exempted taxpayer, with one important difference: tax exemptions are generally not accounted for in the annual budgetary process of local governments and are therefore delivered invisibly. The total cost of the exemptions granted is not disclosed in the process, nor are the recipients of the benefits identified. In effect, tax exemptions can become a way to deliver benefits that might not warrant political support if they were delivered directly in the form of grants.

RECOMMENDATION #3 – LOCAL EXEMPTION POLICY

Local government should not have any discretionary power to exempt property from taxation but should have the power to provide grants to certain entities and under certain circumstances.

RECOMMENDATION #4 – PROVINCIAL EXEMPTION POLICY

Exemption policies should be determined at the provincial level and incorporated into provincial legislation. All existing exemptions should be reviewed and rationalized. Existing private bill exemptions should be repealed and the exemptions should either be discontinued or provided for in general legislation.

Provincial exemption policies and legislation should be reviewed on a regular basis by a provincially appointed Municipal Exemptions Committee. This exemptions committee should include representatives of all local governments, including school boards.

RECOMMENDATION #5 – CRITERIA FOR EXEMPTION

Exemptions should be attached to the use of, a property rather than to the owner of the property.

Exemption from taxation should not necessarily exempt a property or organization from user charges for services such as public utilities and garbage disposal/pickup that are considered to be specifically related to the recovery of the costs of consuming these types of services.

The exemptions review process should be based on the following:

- Criteria for exemption for charitable organizations other than churches and cemeteries, should require that such organizations be:
  - Non-profit;
  - Offering a service that is available to all members of the public;
  - Organized to provide some clear social benefit;
  - Able to meet a means test; and
  - Recognized by Revenue Canada as a charitable institution.
- Public utilities should be taxable.
- Off-reserve Indian lands should be taxable.
- Exemptions granted to eligible lands and buildings should not include parts or areas used for commercial and other purposes which are inconsistent with the purpose of the exemption.

Payments in lieu of taxes for provincial and federal government property

Crown property is largely exempt from property taxation. The federal government may make payments to municipalities to compensate for lost tax revenues under the authority of the *Municipal Grants Act*. These "payments in lieu of property taxes" (PILs) are made to lower-tier (local) municipalities. However, the basis for deciding the amount of payment varies depending on the status of the property and the government entity responsible.

In Ontario, the *Municipal Tax Assistance Act* allows the Minister of Municipal Affairs to make property tax payments on properties owned and occupied by the provincial government to local municipalities based on commercial mill rates for local and upper-tier municipal purposes. The provincial government is also permitted to pay appropriate special area rates, drainage charges and local improvement levies.

However, a number of exclusions apply. For example, no payments are made on behalf of taxable tenants of provincial properties, educational institutions, museums and libraries and others. Also, the provincial government is not authorized to make payments-in-lieu of taxes when it leases property from an exempt owner such as the federal government or a municipality.

Under the *Municipal Act* (Section 157), the provincial government makes a number of "heads and beds" payments in lieu of taxes. Specifically, the provincial government will pay $75 for each full-time university or community college student, $75 for each inmate in a correctional institution and $75 per hospital bed.

RECOMMENDATION #6 – PAYMENTS IN LIEU OF TAXES BY PROVINCIAL AND FEDERAL GOVERNMENTS

Both the federal and provincial governments should make full payment in lieu of local property taxes on an assessment/mill rate basis, including the education-purpose mill rates.

Government-owned or occupied properties should make payments-in-lieu of taxes equal to the full taxes that would be payable if the properties were fully taxable. The current "heads and beds" payment schedules should be repealed.

The school portion of payments-in-lieu should be distributed to the relevant school boards according to prevailing pooling ratios. At the same time, the General Legislative Grant formula should be revised to maintain the existing level of overall provincial transfer payments to school boards on a province-wide basis.

III. PROPERTY TAX ASSESSMENT

While assessment of real property for taxation in Ontario dates back to 1793, the current system was instituted in 1970 when the provincial government took over the assessment function from municipalities. This initiative was taken in response to the recommendations of the 1967 Ontario Committee on Taxation.[24] The stated goals were to implement consistent valuation practices, to centralize administration, to ensure quality control, and to make the measurement of the tax burden comparable across jurisdictions, thereby enhancing accountability, understandability and fairness in the system. While the provincial government has assumed the responsibility for assessment and has succeeded in implementing partial reforms of the system at the local level in many parts of Ontario, the goal of a consistent system across the province has not been reached.

The assessment base is a critical component of the local fiscal system in Ontario. Taxes are levied by municipalities on the assessed value of real property. Because assessment is seen as an indicator of a community's ability to raise revenue locally, it is used by the provincial government to allocate funds designed to promote equity in access to services. It is also used to allocate among lower-tier municipalities the costs of services provided by institutions that transcend lower-tier municipal boundaries. Because assessment systems vary so widely across the province, it is necessary in the current system to adjust local assessments so that they can be compared with each other. This is done through a process called "assessment equalization", in which local assessments are adjusted to reflect current market values for comparison purposes. "Equalized assessment" is used to distribute the General Legislative Grant for education purposes which represents more than 80 per cent of provincial transfer payments for education. It is used in the formula for Ministry of Transportation roads grants. Thus, not only does the assessment base affect taxes, it also affects the functioning of the transfer payment system. In the current system the allocation of billions of dollars of provincial funding depends on the overall accuracy of the assessment system.

The current assessment system

The statutory authority for the definition of the assessment roll, the actual property tax base, is in the _Assessment Act_. Under the Act, property assessments are theoretically to be based on market value, where market value is defined as the price for a property that is agreed upon in an arm's length transaction between a willing buyer and a willing seller. In practice, assessments are based on market value by class and by statutory rating.[25]

24 The Ontario Committee on Taxation, (Toronto: Queen's Printer, 1969), hereafter the Smith Committee.

25 Assessment practice varies as market value proxies vary from class to class. Statutory ratings are applied to pipelines and electrical generating plants; a specific rate per length and pipe size in the former; a square meter rate in the case of the latter.

Five main property classes are used: residential properties of up to six units (but including condominium units), residential properties with seven or more units, commercial, industrial, and farm. In addition, the following classes may also be recognized for assessment purposes: other rateable realty, institutional property, pipelines, and recreational dwellings. Over time, the Ministry of Revenue has collapsed five residential classes into two, one for buildings with seven or more units and one covering the formerly separate classes for 1-2 units, 3-6 units, recreational property and residential farm property.

In practice, the current system has sought to apply consistent practices of valuation throughout the province to properties in the same class. Differences in property and market characteristics have required differences in valuation methods. Three approaches to valuation are used: the comparative sales or market data method, the replacement cost method and the income approach. The first approach is applied to single-family homes and condominiums. Multiple residential rental properties are assessed using the "fair market rent" or income method. Farm assessments are based on farmer-to-farmer sales. The replacement cost method is used to assess industrial and special purpose properties. Generally, these properties included unique structures or involved land uses. The income approach is used to value hotels, motels, taverns, and certain commercial properties.[26] Pipelines are assessed using rates based on linear measurement set out in the *Assessment Act* (statutory rates).

Real property is defined by the Act. It includes land, buildings, machinery and fixtures affixed to land and/or buildings, mines (excluding underground improvements and minerals). However, machinery and equipment used for manufacturing, farming or mineral processing, and mine site improvements directly used in mining activities are excluded from the tax base.

When the provincial government assumed the assessment function in 1970, it took over from municipalities a system which, while theoretically based on common legislative principles, had evolved into a system in name only as a result of decades of administrative practice at the local level. Substantial variations in assessment practices and methods, qualifications of assessors, the quality of and ethical principles in the local political/administrative structure and the frequency of reassessment had created a structure with no common basis among municipalities. The system as it had evolved appeared to be unrelated to any principles of fairness or consistency.

While the consistency of assessment practices and administration has improved significantly since the provincial takeover in 1970, progress towards a resolution of the problems which prompted the initial reaction has been slow. This should not be

26 The application of the income approach appears to create a significantly higher effective tax burden on hotels compared to other commercial properties which has resulted in considerable litigation and a continuous argument from hotel proprietors that they are being treated unfairly relative to the owners of other commercial properties. This approach also gives rise to an issue concerning the allocation of property taxes among tenants in shopping centres. Allocation based on income means that favourable rent arrangements for prime tenants translate directly into favourable tax positions for prime tenants as compared with other tenants.

surprising given the magnitude of the problem and the visibility of the impacts of transition on individuals. As Harry Kitchen, an academic specialist in local government finance, points out: "while uneven assessment practices have been observed in all provinces, they are more prevalent in Ontario, primarily because there has been no province-wide implementation of market value or uniform assessment"[27].

The idea behind the provincial takeover of the assessment function in 1970 was to establish a uniform system of assessment, based on estimated market values across the province, and to reassess all property on a regular basis to keep both absolute and relative values up to date. When the legislative basis for the new system was first enacted, it specified that province-wide reassessment would take effect on January 1, 1974. Despite repeated attempts by provincial governments to introduce a fully reformed system, widespread political opposition led first to annual amendments postponing the date and finally to the elimination of any commitment to a fixed date in the Act.

Having failed to implement province-wide reform, the provincial government began in 1979 to permit municipalities to opt into one of two alternative approaches to reform. One option is full market value reassessment in which all classes of property are assessed on the same basis. In this option, total tax burdens on each class of property are determined by the share of total current market values in each class. The other is a partial market value reassessment in which relative values within each class of property are based on market value estimates but between classes of property the relative values in the pre-existing system are maintained. As a result the total tax burden for each class of property remains the same.

The advantage of the second option from the local perspective is that it allows pre-existing different effective rates of tax on different classes of property to remain unchanged while preserving the appearance that the residential tax rate is 85% of the commercial and industrial tax rate. This in turn permits reassessments to take place within classes of property without creating the tax shifts between classes of property (normally against the residential class) that make general reassessment unpopular. At the same time the goals of clarity and explicitness, that would have been achieved by making differences in effective tax rates apparent to taxpayers, are sacrificed.

Since these options were first permitted in 1979, 728 municipalities—covering approximately half of the population of the province—have adopted one or the other of these forms of reassessment. Metropolitan Toronto is notable as not having been reassessed at all[28] and a number of the larger municipalities have not yet been

27 Kitchen, H.M., Property Taxation in Canada, (Toronto, Canadian Tax Foundation, 1992, p. 24) from a section entitled "Non-Legislated Variation".

28 In October 1992, Metro Toronto approved a tax reform plan which moves towards market value as an assessment base, but does not reach market value by the end of its phase-in period. Both Metro and the provincial government have indicated that further studies of impacts and alternatives will be necessary before any further changes are made.

reassessed as part of a region-wide reassessment. The current assessment system in Ontario is a complex amalgam of:

- municipal assessment systems that pre-date the provincial takeover of the assessment function in 1970;
- partially reformed systems based on market values in a variety of time periods since the options were first permitted; and
- wholly reformed systems, also based on market values in a variety of different years.

This complex amalgam results in a hodge-podge of varying practices that ensures non-comparibility and confusion, resulting in turn in the wide variation in effective tax rates described above.

Principles for achieving consistency

The case for consistency across the province in assessment systems is overwhelming from the perspective of taxpayers. Given the importance of the assessment for other administrative purposes of the provincial government and the problems created by the current lack of uniformity in assessment systems, it would appear that it should be overwhelming from the perspective of the provincial government as well.

RECOMMENDATION #7 – ASSESSMENT PRINCIPLES

- **Assessments should be done uniformly across the province, using a common set of principles.**
- **All real property in the province should be assessed, including exempt properties and properties subject to preferential tax treatment.**
- **Assessments should be updated regularly.**
- **Within a given class of property, like properties should be assessed in like fashion.**
- **Assessment should be based on a fair and consistent method of valuation.**
- **The current definition of land in the *Assessment Act* should be reviewed.**

CONCLUSION #4 – FEATURES OF A GOOD PROPERTY ASSESSMENT SYSTEM

- Neutrality – the system should not result in unintended changes in behavior.
- Objectivity and impartiality – assessments should be objectively verifiable and easily produced.
- Simplicity – the system should be designed for ease of understanding by the taxpayer.
- Clarity, visibility, explicitness – assessment methods should be clear to, and easily verifiable by, the taxpayer; differences in tax policies should be explicit and not hidden in differences in assessment methods.
- Certainty – the taxpayer should be able to determine with certainty his or her tax liability.
- Stability – the system should provide for stability in the tax base, both from the perspective of the individual taxpayer and from the perspective of the local taxing authorities.
- Administrative fairness – the system should provide for a fair and accessible appeals process in which taxpayers can participate at reasonable cost.
- Administrative simplicity – the system should be designed for ease of administration by both assessors and local tax authorities.
- Impact on other public policy objectives—a tax should not have a negative impact on patterns of urban development and on factors influencing economic competitiveness.

In addition, an appropriately designed assessment system would incorporate:

- A statutory framework that embodies the intent of the legislature;
- A set of standards and an administrative system able to support the needs of the provincial and local governments;
- A requirement for regular updating of assessments; and,
- Appropriate phase-in or transitional arrangements and property tax relief mechanisms.

Since the property tax is the principal tax financing local government, the assessment system should provide for an appropriate level of involvement by local government and support local accountability.

Defining a fair and consistent assessment base

The working group considered three general methods for assessment. Although the three methods considered could be applied to any class of property, the working group's evaluation of the three approaches was conducted specifically with reference to the single-family residential property class. The three general approaches evaluated were: market value, in which values are based on estimates of the likely arms-length sale price of a property from a willing seller to a willing buyer; unit value, in which values are based on the physical characteristics of a property; and two-tier assessment, in which land and improvements are valued separately and taxed at different rates, with higher rates on land values than on the value of improvements.

These options for assessment reform were considered by the working group in relation to fairness and other criteria adopted by the group for evaluating the property tax. The group placed special emphasis in the analysis on an evaluation of the relationship between individual tax liability under each assessment system and the ability-to-pay of the individual taxpayer. The objective was to determine whether any of the assessment systems under consideration performed any better than the others on this ability-to-pay criterion.

A database developed by the Fair Tax Commission (FTC) was used to compare residential taxes as a percentage of household income under alternative approaches to assessment. This database links income tax records to the assessment records of the Ontario Ministry of Revenue. For each household in the combined database, income determined from income tax records is linked to the assessment record for the property occupied by the ratepayer. Once the link is established, the relationship between household income and any measure of the assessment, value or physical characteristics of the property that appears on the Ministry of Revenue database can be compared.

The assessment database contains information on building area and lot area as well as current assessed value, and year and amount of the most recent sale. It contains sufficient information to compare the existing assessment system against an assessment system based on the physical characteristics of the property and therefore makes it possible to evaluate the unit value system. The provincial computer database does not provide separate value figures for land and improvements. Separate value estimates are available in manual records. These separate value estimates can be added to the computer database for analysis through special tabulations available from the Ministry of Revenue on a cost-recovery basis. No such data were obtained for the communities studied by the working group. The group considered the two-tier system in relation to other criteria.

The analysis was conducted for the Town of Pickering in Durham Region and for Etobicoke in Metropolitan Toronto. Since the Town of Pickering was reassessed by the Ministry of Revenue using its approach to market value estimation based on 1984 values, data for market value assessment were drawn directly from the main Ministry of Revenue database. For Etobicoke, figures from the 1988 Ministry of Revenue market value reassessment study were used.

The FTC study reveals that there is a very weak relationship between ability-to-pay as measured by household income and any physical or value measure of the residential property occupied by that household. In other words, using ability-to-pay, the traditional indicator of tax fairness, none of the assessment systems considered performed any better or worse than any other.

CONCLUSION #5 – ASSESSMENT POLICY AND ABILITY-TO-PAY

that for all of the assessment systems considered, the relationship between assessment and property taxes on the one hand, and household ability-to-pay on the other, was extremely weak;

that the choice among competing assessment systems must be made on the basis of criteria other than ability-to-pay; and

that assessment reform by itself will not improve the fairness of the property tax in relation to ability-to-pay.

A summary follows of the working group's findings on the relationship between ability-to-pay and the assessment system and of its analysis of the three assessment systems. It must be stressed that this analysis is preliminary, and is intended to illustrate the issues raised by the three systems considered and not to present any firm conclusions.

Major Assessment Systems Compared

	Market value	Unit value	Two - tier
Description of base	Property assessed at a price that a property would bring on the open market if sold by a willing seller to a willing buyer.	Weighted sum of lot area and building area. Weights are usually described as value-based, and would be adjusted over time.	Land and buildings assessed and taxed separately, thereby permitting the taxation of land at a higher rate than improvements at local council discretion. Assessment at market value.
Assessment basis	Market value of property, established using property appraisal methods	Physical characteristics of property with average value-based weights for class and/or location.	Market value of land and improvements determined separately, using property appraisal methods
Application of assessment method	Three main methods: sales, capitalized rental income, or replacement cost. Sales method requires assessment manual used to rate physical characteristics to link to actual sales, adjusted for fluctuations. Reassessment at regular intervals (4 years) a necessary feature of the system.	Building and land areas measured in standard units; weighting factors calculated from average market data; factors could be determined municipality-wide or on a sub-area basis.	Market value separately determined for land and improvements. Reassessment of land and improvements components would presumably take place regularly.
Application to different classes of property	Sales method primarily for small residential (including condominiums) and small commercial; capitalized rental value primarily for rental residential, commercial and most industrial; replacement used primarily for unique industrial properties.	Individual property valuation based on physical measurements for all classes; value weights for all classes and/or geographic subclasses could be generated from market-based data. Application to commercial and industrial would be based on per-square-foot value measures standard in the sector.	Appraisal methods would be similar to market value.

	Market value	Unit value	Two - tier
Claimed benefits	Measures value on a basis familiar to taxpayer. Straightforward to establish consistent system across province. Ease of integration with current apportionment and equalization systems.	Minimize cyclical influences of market values on property assessment. Reduced administrative and appeals costs; ease of understanding of method by taxpayer. Does not penalize individual property improvements that do not increase physical dimensions of property. Assessment would not act as an incentive for redevelopment.	Encourage improvement of land by reducing tax on buildings; taxes socially created land values; reduce taxes for homeowners; optimize vacant land use. Captures a portion of unearned increments in land values.
Tax policy flexibility	Tax rates could vary for different classes of property in accordance with working group recommendations on banding. Avoids difficulty in valuing land separate from improvements.	Tax rates could vary for different classes of property and different locations in accordance with working group recommendations on banding.	Separate tax rates can be set on land and buildings. Would indirectly permit variation in burdens on residential relative to other classes of property. If class banding also a feature (separate tax rates for land and improvements for each class of property) could vary for classes of property as well.
Fairness **Ability-to-pay** **Equal treatment of equals (horizontal equity)** **Appropriately unequal treatment of unequals (vertical equity)** **Household income impact basis**	Regressive pattern throughout income range in aggregate studies; wide variations within income classes. Pickering and Etobicoke studies show similar results. Low percentage of variation in household income explained by variations in market value assessment (Pickering, 3.0%; Etobicoke, 7.5%)	Study of Pickering and Etobicoke showed weak relationship between building area and household income (Pickering, 2.0%; Etobicoke 4.8%). Stronger relationship between floor area and assessed value (Pickering 79%; Etobicoke, 39%). Statistical tests suggest that income incidence will not differ materially from market value basis.	Statistical analysis suggests no reason to expect income incidence to differ materially from market value basis. Very high relative taxes on land would capture a portion of unearned increments. Serious problems with equity in older, central city areas and in farming areas under development pressure if land taxes high.

	Market value	Unit value	Two - tier
Fairness **Benefits received**	No reason to believe market value is any better or worse than any other system overall.	To the extent that consumption of physical services is more a function of area than property value, may match benefits received from physical services to property better than value base.	No reason to believe two-tier is any more closely related to benefits received than any other system.
As simple as possible	Requires use of appraisal techniques because sales of individual properties do not take place with sufficient regularity.	Assessment function for individual property is a physical measurement that can be cross-referenced to municipal planning records and verified by taxpayer. Value factors could be established arbitrarily or according to formula based on actual sales smoothed over time.	Requires use of appraisal techniques for valuation, since actual transactions do not happen on a sufficiently regular basis. Separate value estimates for land and improvements currently prepared by assessors would be reported separately and tested separately on appeal.
Clarity, visibility, explicitness	Values determined using appraisal techniques. Can be verified/contested only with specialized assistance. Large properties often subject to assessment appeal.	Physical measurements can be verified by taxpayer. Overall performance against this criterion will depend on simplicity of weighting factor process and credibility of results.	Values determined using appraisal techniques. Complicated by the fact that two separate values must be created for assets that do not normally trade separately. Values of parcels are often higher than sum of land and improvements separately.
Neutrality – no unintended changes in behavior	Could act as disincentive to improve property because quality improvements will tend to increase relative values; under certain systems, improvements automatically trigger reassessment. Could act as incentive for redevelopment of areas in which market value exceeds value in current use such as core-area strip commercial and residential areas or farm land.	Would make property improvements that do not change a building's floor area tax neutral and thus would remove the disincentive for such changes inherent in a value-based system.	Behavioural change is an explicit goal of two-tier system with higher tax rates on land. Land intensification an explicit goal. Because tax is a very blunt instrument, difficult to predict development impacts. Not as flexible as a planning mechanism as zoning.

	Market value	Unit value	Two - tier
Certainty	Relative tax loads can change dramatically with regular reassessments based on market values in volatile markets.	Tax varies directly with assessment; assessment based on physical measurement and value factors.	Relative tax burdens on residential properties determined annually in budget cycle.
Stability	For taxpayer, relative value fluctuations between reassessments in volatile market introduces element of instability. Overall stability of base depends on economic conditions.	Base calculated from physical measurements. Stable for both government and taxpayer. Tax base grows as usable space grows. Individual unit reassessment required only when physical character of property changes.	Political decision regarding tax rates for land vs. buildings could effectively make assessment base unstable for government. For taxpayer, effective base could change from year to year as relative tax rates change.
Appeals	Complex appeals based on valuation methods are common, particularly for large properties. Costs associated with appeals are estimated at $50 million annually.	Assessment is straightforward physical measurement. Costs of appeals for unit value vs. market value cannot be determined without further study.	Complicated by two-tier structure of assessment. Appeals based on valuation methods. Separation of land and buildings for valuation purposes is difficult in most cases and expands scope and technical complexity of potential appeals.
Administrative simplicity	Depends on accurate appraisal methods and measurements of market trends.	Physical measurement is extremely simple as a base. Depending on method for determining value weights, some complexity might be introduced.	Two-tier assessment introduces element of complexity. Separation of land and buildings adds complexity to valuation process.
Administrative costs	Disentanglement estimates current system costs approximately $135 million per year to operate. Estimated split: 30% residential, 70% commercial and industrial.	No overall conclusion can be drawn with respect to administrative costs without further study.	No conclusion can be drawn with respect to administrative cost impact without further study.

The group's analysis of assessment systems was based only on the single-family residential sector. Concern was expressed with respect to assessment systems based on physical characteristics of property that diversity in property types within the residential sector would require the establishment of a weighting system to address obvious inequities. Because of the greater diversity in the commercial and industrial sector, the group felt that it would not be reasonable to apply unit value outside the residential sector without either introducing explicit value weights or establishing new property classes within the commercial and industrial category. Without such differentiation, unit value could produce uniformity in property taxes per square foot within a municipality and create a situation in which prime office tower space would pay the same tax per square foot as space in a commercial strip or shopping centre. However, current assessment records on property characteristics already permit distinctions to be made on this basis and thus implementation of such a system should not be that difficult for commercial and industrial properties.

As noted above, the group concluded that there would appear to be no basis on ability-to-pay grounds for choosing one assessment system over any other. The group also concluded that other accepted criteria for tax and assessment system evaluation should form the basis for choosing a reformed assessment system for the province. The choice of the appropriate system for assessment in Ontario is an important choice, one which can be made only after careful consideration of how each of the options compares on the basis of accepted criteria. The group had neither the time nor the empirical data to come to a definitive recommendation to the government as to the appropriate method for assessment in Ontario. Based on its preliminary analysis of market value assessment as compared with the two-tier and unit value assessment systems, the group concluded that further study of alternatives to market value should be conducted to determine their potential as alternatives or supplements to market value assessment.

RECOMMENDATION #8 - FURTHER REVIEW OF ALTERNATIVES TO MARKET VALUE ASSESSMENT.

The Treasurer and the Fair Tax Commission should undertake further study of assessment systems including ones based on the physical characteristics of property as an alternative to, or as a supplement to, market value as the basis for an assessment system. This study should evaluate the assessment systems based on the criteria adopted for taxation and assessment systems by the working group in its conclusions 3 and 4.

Residential property

For both appraisal and valuation purposes, residential property is defined as a self-contained entity providing its occupants with facilities for cooking, sleeping, bathing and other activities.

Residential properties may take many forms:

- Single-family dwelling.

- Multiple residences—rental apartments, walkups, high-rise, rental townhouses and others.
- Condominiums/co-operatives.
- Mixed-use residential/commercial.
- Rooming houses and retirement homes.

Both assessors and appraisers consider each of these residential properties as a distinct property type. Each is therefore appraised based on its own market data and conditions. The fact that appraisal methods may differ, however, does not in itself justify the different assessment results nor does it justify differences in the ultimate effective rates of taxation. It is important that the system take into account any biases that may result from the use of different valuation methods.

In most municipalities, multiple residences are assessed at a higher proportion of market value than single-family residences. As a result, although the tax rate (mill rate) appears to be the same for all residential properties, tenants are actually taxed at a higher rate than single-family homeowners. When condominiums were first introduced into the Ontario housing market, they were assessed on the same basis as rental properties with the same physical characteristics. A successful appeal led to a change that resulted in owner occupied condominiums and co-operatives being assessed at the same percentage of market value as single-family residences. Now the tax burdens on some condominiums are considerably lower than on rental apartments that are physically identical. Rental apartments which have been converted to condominium units are assessed as single-family dwellings if they are occupied by their owners but are assessed as rental property if they are not.

This example points to the need for neutrality in assessing residential property. All residential properties should receive the same treatment for assessment purposes, regardless of their ownership and occupancy status. The assessment system should not favour one property type over another or one type of property tenure over another.

Differences in taxes should be determined through the explicit, visible and politically debatable process of determining tax rate policy, rather than through differences in assessment practices.

RECOMMENDATION #9 – RESIDENTIAL ASSESSMENT

All residential properties, including single-family residential properties, condominium residential properties and rental residential properties should be assessed at fair and consistent values.

RECOMMENDATION #10 – RESIDENTIAL TAX RELIEF

Any tax relief provided to residential property owners or occupants should be made through either tax reductions or rebates on an individual applicant basis.

RECOMMENDATION #11 – PROPERTY TAX CREDITS

The provincial government should maintain the current property tax credits given to individuals with modest and low incomes to help lighten their property tax burdens.

RECOMMENDATION #12 – PHASE-IN

Appropriate phase-in mechanisms should be provided to assist residential property owners and tenants when all properties are assessed at their fair and consistent value.

Tenants

The current treatment of property taxes on rental property is unsatisfactory for a number of reasons. First, tenants are not aware of how much property tax they actually pay through their rent, and therefore are less aware than they should be of this tax and of the issues that affect them. There is an inconsistency between the basis on which the *Assessment Act* allocates assessment and the way the regulatory system for rents allocates tax. Currently, the *Assessment Act* allocates assessment on the basis of the physical dimensions of units. The provisions of rent control on the other hand allocate tax to be passed through to tenants on a percentage-of-rent basis. In buildings in which rents on units of similar size vary for historical and other reasons, those same distortions are reflected in the distribution of property taxes paid by the tenants through their rents.

Second, because there is no explicit indication to tenants of how much they pay in property taxes through their rent, there is no adequate basis for a mechanism to pass through to tenants any reductions in property taxes that may result from tax reform or any other change. Third, because tenants are not recognized by the system as paying property taxes, they have difficulty gaining standing to appeal the assessment on the buildings in which they rent. This lack of official recognition also creates difficulty for tenants in hiring agents, who usually work on a contingency basis, to represent them in assessment appeals.

The information on which to base an allocation of tax to occupants of residential property is currently available. It would be technically possible to attribute tax to in-

dividual units. There are, however, significant collection and administrative problems associated with the immediately obvious solution of making tenants directly responsible for the property taxes on their own units. To make that change in the rental residential sector for property taxes might create even greater tax administration problems and costs than those that already exist for the business occupancy tax in the commercial/industrial sector.

RECOMMENDATION #13 – PROPERTY TAX AND TENANTS

The provisions of the *Rent Control Act* for the allocation of tax among units within a rental residential building should be made consistent with the provisions of the *Assessment Act* for such allocations.

Notices of the annual taxes paid on rental residential units should be provided to the occupants of those units at the same time as final tax notices are sent to property owners. Such notices should make it clear that they are not tax bills, but a notification of the amount of tax being paid on their behalf, through their rent, by the landlord.

The *Assessment Act* should be amended to give residential, commercial and industrial tenants the right to appeal the assessments allocated to their units as well as the overall assessments of the buildings in which their units are located, and to provide for an automatic pass-through to tenants of the actual tax reductions required as a result of successful appeals or as a result of a reassessment.

A permanent mechanism for the pass-through of tax reductions to tenants, integrated with the relevant provisions of rent control, should be developed and incorporated into the relevant provincial legislation.

Cottages and recreational properties

At present, recreational properties are assessed according to the same standards as residential properties. Recreational properties fall within the definition of residential property because they provide their occupants with facilities for cooking, sleeping, bathing and other activities.

A property which is used as the primary residence of the owner/occupant may not be classified as a recreational residential property.

Recreational properties include:

> single-family dwelling – cottage design; timeshare condominiums; trailer park with permanent moorings; trailer park with mobile units; rental chalet units and/or rental cottages; and tenting sites.

Considerable debate has arisen in Ontario in recent years concerning property taxation of recreational properties and cottages. A number of arguments have been

raised to support a claim for special treatment of cottage and recreational properties on the basis that many of the services currently funded from property taxes are not used by or available to seasonal residents. The working group concluded that these concerns are not appropriately addressed through the assessment process. In the group's view, it would be inappropriate to apply different assessment standards to one class of property or property owner as distinct from all other classes of property and property owners.

As noted earlier in this report, the working group adopted the position that the property tax should be viewed as the principal source of general tax revenue for local government in Ontario. It also took the position that the property tax should be replaced by user charges as the funding basis for some services and by provincial general revenue sources more closely related to ability-to-pay for other services. Finally, it should be noted that not all of the issues raised with respect to the relationship between services and taxes are tax policy issues. Many are local political issues that should be resolved through the local political system.

RECOMMENDATION #14 – RECREATIONAL PROPERTY

All recreational properties should be treated the same as residential properties and assessed at their fair and consistent value, regardless of use or availability of services.

Concern has been raised in a number of areas that it is unfair that owners of recreational trailers are not subject to local property taxes. Cottage owners have complained that they are required to pay property taxes on their summer (seasonal) property, while trailer owners are not. Municipalities have argued that they do not receive any tax revenue from trailer owners, and yet must provide municipal services, such as garbage collection, road maintenance and fire protection.

On the other hand, trailer owners have argued that a trailer is not similar to a cottage and that the owner of a campground or trailer park is already paying municipal and business taxes on the property occupied by the trailer.

An inter-ministerial committee of the provincial government has studied the issue and proposed a solution, summarized as follows:

- All trailers located in campgrounds for more than ninety days should be liable for a permit fee of $50 annually;
- Those trailers that are occupied by persons who do not have a principal residence elsewhere should be assessed and taxed;
- Trailer owners should be required to complete a declaration stating whether or not their trailer will remain on its site in the campground for more than ninety consecutive days, and whether or not they have a principal residence elsewhere;
- Campground owners should be responsible for having the declarations completed, for collecting the permit fee from all affected trailer owners, and for

remitting the declarations and permit fees to the municipality in which the campground is situated;

- The municipality would, in turn, be required to forward the declarations to the Regional Assessment Office;
- The permit fee would be mandatory, applied throughout Ontario, and not subject to municipal bylaws; and
- The fees would be remitted to municipalities, except in unorganized territories, where the fees would be remitted to local roads boards.

The working group considered this proposed approach to the taxation of recreational trailers and recommends that it be rejected. The group found no basis for establishing a taxation regime for permanent recreational trailers that differs in principle from the regime that applies to all other recreational property in Ontario.

RECOMMENDATION #15 – RECREATIONAL TRAILERS

All recreational trailers permanently located (for 90 days or more) within a campground or trailer park should be assessed at a fair and consistent value and be liable for full property taxation on the same basis as any other recreational property.

Commercial property

Typically, commercial properties support many different kinds of businesses.

Commercial properties include:

> office building; medical/professional office building; plazas; commercial condominium; commercial conversion; single story commercial; first story commercial with upper level residential; purpose-built and free standing restaurant; fast food restaurant; automotive commercial; gas station; owner-occupied "Ma & Pa" establishments; and special use commercial (e.g. Instant Teller booths).

Appraisers generally treat each of these types of commercial property as representing a distinct market. All three of the established approaches to valuation – sales, replacement cost, and rental income – are used to appraise commercial properties.

RECOMMENDATION # 16 – ASSESSMENT OF COMMERCIAL PROPERTY

All commercial properties should be assessed at their fair and consistent value.

Industrial property

Industrial properties generally include all properties used for manufacturing, fabricating, tooling, retrofitting, repairs and related activities, warehousing, or wholesaling.

Industrial properties may take any one of these forms:

- free standing/single occupant;
- industrial malls with multiple tenants;
- multiple story industrial buildings with multiple tenants;
- industrial condominium; older multiple-story/single occupant;
- large industrial complexes with a multiplicity of buildings;
- special use industrial/heavy industrial;
- mini-storage.

Appraisers see each of these individual property types as being unique. Each also forms its own market. Therefore, each is appraised based on its own market data and conditions. Due to infrequent industrial property sales, property assessors tend to rely more heavily on the replacement cost approach for valuation purposes.

RECOMMENDATION #17 – ASSESSMENT OF INDUSTRIAL PROPERTY

All industrial properties should be assessed at their fair and consistent value.

The treatment of machinery and equipment

Under the *Assessment Act*, machinery and equipment is not subject to assessment if it is:

- Used for manufacturing or farming purposes.
- Used for the purposes of a concentrator or smelter of ore or metals.
- Used for the production of electric power for sale to the public.
- Located under mineral lands.
- Used by any telephone and telegraph company in connection with its business.

A number of questions arise as to what structures or equipment located on a property are fixtures and, as such, are taxable as land. For example, the Court of Appeal has ruled that gasoline pumps and tanks at a service station are "structure, machinery and fixtures" and assessable to the owner of the land. In another case, the Court held that a municipality must show that amusement rides are fixtures which fit the definition of assessable land and are therefore taxable. As the municipality failed to satisfy the Court, the rides were declared tax exempt. The *Assessment Act* has been amended to reflect this decision.

RECOMMENDATION #18 – EXEMPTIONS FROM INDUSTRIAL ASSESSMENT

The current exemption for machinery and equipment should be retained.

The exemption of machinery and equipment should be specified and categories of machinery and equipment eligible for the exemption should be set out in regulations under the *Assessment Act*.

Underground mining facilities

The Association of Mining Municipalities of Ontario (AMMO) and several northern municipalities requested in 1987 that underground mining facilities be subject to assessment and tax. At present, all surface land and buildings of a mining operation are assessed under the provisions of the *Assessment Act*.

Under the *Assessment Act*, certain machinery and equipment used for farming and manufacturing purposes is exempt from taxation. The same exemption applies to machinery and equipment located underground. The AMMO proposed that underground mining facilities be included in the assessment of a mining property, including areas devoted to access, extraction and crushing, vehicle servicing, fuel storage and first aid.

In 1987, the Ministry of Revenue studied four mining facilities. It concluded that none of the operations studied would generate more than one percent above its current tax contributions if underground facilities were included in the assessed value of the property. The study also concluded that the minimal tax revenues generated would not justify amending the *Assessment Act* to permit the taxation of those underground facilities that would be taxable if they were located on the surface.

The industry argues that it is already bearing more than its fair share of taxes and that additional taxes may reduce its competitiveness.

RECOMMENDATION #19 – ASSESSMENT OF UNDERGROUND MINING OPERATIONS

The current assessment treatment of underground mining operations should be retained.

RECOMMENDATION #20 – SHARING OF TAX REVENUES FROM MINING

A protocol should be developed by the provincial government, the federal government, municipalities and mining companies for existing and future mining operations with respect to the sharing of all mining taxes.

Special purpose properties

A special purpose property is one whose original intended use cannot be easily converted to a different use. Examples are railway and hydro rights-of-way which are narrow, long and often not accessible from public roads.

Rail roadways and rights of way

Railway roadways and rights-of-way are assessed according to the average values of abutting lands. Three variations are currently in use.

- Regular roll municipalities

In these areas, the assessed values for roadways and rights-of-way were inherited from various municipalities in 1970 at the time of the provincial takeover of assessment. These have remained unchanged because assessment rolls were frozen in July 1971. Accordingly, these values are maintained until a reassessment is implemented.

- Municipalities reassessed by property class

For municipalities reassessed prior to 1989, railway roadways and rights-of-way were assessed as a separate class. This means that the roadways and rights-of-way were treated as a separate property class for reassessment. This permitted assessment and tax burdens to be redistributed among railway companies, but ensured that the total tax of railway properties remained the same after reassessment as before.

According to this approach, the valuation of roadways and rights-of-way is based on average land values in the vicinity, applied either on a frontage foot or on an acreage basis. In this way, the values for the roadways and rights-of-way reflect all land uses of the abutting lands.

Railway roadways and rights-of-way are no longer treated as a separate property class. This allows the total assessed values of roadways and rights-of-way to reflect the changing market value trends of the abutting lands.

- Municipalities reassessed at market value

Railway roadways and rights-of-way are valued based on the average per acre values of abutting lands for a given base year. This allows the assessed values of roadways and rights-of-way to reflect the market values of various land uses of the abutting lands.

Hydro rights-of-way

Ontario Hydro's rights-of-way are assessed according to the average values of abutting lands. The three categories of assessment treatment described above for railway rights of way also apply to hydro rights of way.

Generating stations

Generating stations are currently assessed at statutory rates.

Pipelines

Assessment rates are applied according to statute to:

- transmission pipelines, which transport oil and gas, generally at high pressure over long distances, from a source of supply to distribution centres, large volume customers or to interconnecting pipelines; and

- field and gathering pipelines, which transport oil and gas from individual wells to compressor stations, processing points or main trunk pipelines and are usually laid in a grid, with larger pipes along principal streets and smaller lateral lines extending along side streets.

RECOMMENDATION # 21 - ASSESSMENT OF SPECIAL PROPERTIES BASED ON PHYSICAL MEASUREMENT RATHER THAN VALUE.

Statutory rates should be used for the valuation of railway rights-of-way and hydro rights-of-way. These statutory rates should be updated on a regular basis.

The statutory rates for power generating stations should be appropriately updated.

Statutory rates should continue to be used for the assessment of pipelines. These rates should be updated on a regular basis.

RECOMMENDATION #22 – REVENUE FROM SPECIAL PROPERTY TAXATION IN UNORGANIZED AREAS

The taxes collected in unorganized areas from railway and hydro rights-of-way, generating stations and pipelines should be turned over to the appropriate local services boards, school boards, local roads boards, statutory labour boards and other local authorities to assist in funding local services.

Telecommunications properties

Telephone company properties are assessed and taxed under the provisions of the *Assessment Act* and the *Municipal Act*. Telephone company properties are currently assessed as follows:

- All machinery, plant, appliances and structures (including telephone poles, towers and wires) used by a company as part of its operations are exempt from assessment under the *Assessment Act*. Prior to 1972, the *Assessment Act* included provisions for assessing and taxing wire mileage and gross receipts.
- Telephone companies are required to pay an annual tax to each municipality in which they operate, under the provisions of the Municipal Act.
- The tax rate is equal to 5 percent of the company's gross receipts distributed among municipalities on the basis of the number of rental telephones in a municipality. This tax replaced the previous wire mileage assessment and taxation included in the *Assessment Act*.
- Other real property belonging to telephone companies is assessed and taxed in the same manner as similar real property in the vicinity. This includes the structures housing telephone equipment.

Advances in telecommunications technology have created significant inequities in the assessment of these properties. As a result, competing and complementary services are treated differently for assessment purposes. For example, telephone facilities are taxable; cable TV facilities are not. These difficulties will only get more extreme as technological changes take place and competition in this area increases. In addition, the potential for a successful constitutional challenge of the current approach suggests a need for change.

RECOMMENDATION #23 – TELECOMMUNICATIONS PROPERTY

The current assessment and taxation method for telecommunications company property should be retained.

RECOMMENDATION #24 – TELECOMMUNICATIONS TAX

In place of the current 5% tax rate on company gross receipts, a provincial telecommunications tax on all telecommunications services including cable television and services competitive with the telephone system should be introduced based on direct subscriber billing.

Provincial revenue from this tax should be allocated proportionately to school boards and municipalities.

Farm properties

A property is defined as a farm if the land and buildings are used to grow and/or raise a product. The goods being produced may take many forms, for example:

> grains; cash crops; fruits/vegetables; milk and other dairy products; beef, pork, poultry, eggs, fish; fur bearing animals; equestrian operations and so on.

Appraisers define a bona fide farmer as an individual who derives his or her livelihood from the land. The current depressed state of the farming sector makes this definition difficult to apply. Many farmers are now forced by economic circumstances to take a second job off the farm to supplement inadequate farm incomes.

It is important to be able to distinguish between farms and country estates on which some crops are grown when determining who is entitled to tax assistance for farmers. It is also important to be able to separate land that is held for development from land used for farming. For assessment purposes, properties recognized as bona fide farms are assessed according to the market value as established in farmer-to-farmer sales only.

At present, farms are eligible to receive farm tax rebates under the Ontario Farm Tax Rebate Program. This program provides a grant equal to 75% of the taxes paid by a farmer on farm land and farm buildings. This includes seniors who continue to occupy their farms. The $166 million[29] rebate program is a very significant contributor to farm income, amounting to 13% of net farm income.[30] At the same time, there is considerable debate as to whether the rebate is the most effective way to spend the funds available for provincial farm income support.

It must be recognized that the question of farm taxation for municipal and school board purposes is not fundamentally a tax issue. It is a farm policy issue. The working group accepts the need for special assistance to support farming in this province and the need to ensure that assessment and tax policies do not undermine the viability of the farming industry and community. Consequently,

29 Projected figures for 1992 fiscal year (Ministry of Agriculture).

30 Based on 1990 figures for Farm Tax receipts and net farm income (Statistics Canada Catalogue #21603)

the question of farm taxation and the farm tax rebate should be resolved in the context of a comprehensive review of public policies in support of farming and farmers.

Assuming that a viable farmland policy must:

- stabilize farm family incomes.
- secure locally grown food supplies.
- protect agricultural land.

the working group recommends the following:

RECOMMENDATION #25 – ASSESSMENT AND TAXATION OF FARM PROPERTY

The Farm Tax Rebate Program should be retained or an equivalent program developed.

All farmlands should continue to be assessed at fair and consistent values.

Farm residences and one acre of land should continue to be assessed and taxed with the tax responsibility remaining that of the owner. However, the assessment of the residential land portion should continue to reflect its value as an unsevered lot.

A study group should be established to review the assessment and taxation of farms with a view to protecting both bona fide farm operators and the local property tax base.

IV. OTHER TAXES

This section deals with other taxes levied on properties or users of properties, including the business occupancy tax, the provincial commercial concentration tax (a supplementary tax on large commercial properties in the Greater Toronto Area), the provincial land tax, development charges, and user fees.

Business Occupancy Tax

The business tax was introduced in 1904 to replace the municipal tax on personal property and business income. Business assessment is computed by taking the assessed realty value of a property multiplied by a percentage rate that is specific to the particular business. The percentages attached to various businesses were assigned in 1904 on the basis of perceived ability-to-pay. These percentages remained in force largely unchanged until the 1980s, when the number of rates was reduced and the high rates for distillers (likely motivated originally by prohibitionist sentiments) were eliminated.

Currently, there are five business assessment percentages:

- 25% for car parks;
- 30% for race tracks, telephone and pipeline companies; and most small retail businesses;
- 50% for lawyers, doctors, dentists, engineers and other professionals, agents, radio stations, newspapers and magazines, photographers, printers, stock or commodity exchange operators and department stores or retail chains with more than 5 outlets in Ontario;
- 60% for manufacturers, mines, smelters and concentrators;
- 75% for wholesalers, financial institutions, "express companies", brewers and distillers.

Unlike commercial and industrial property taxes, which are a legal obligation of the property owner, the business tax is the responsibility of the business occupant of the property. Since the occupant, and not the owner, is responsible for business tax, the business tax is a personal liability.

The business tax is a significant source of revenue for Ontario municipalities and school boards, totalling some $1.5 billion annually. Business taxes account for approximately 12% of all property taxes collected by municipalities for education and municipal purposes.

These two key elements of the business tax – the variable rate structure and the fact that it is a tax on the occupant rather than the owner of the property – give rise to the two principal issues concerning the business tax. Whatever the rationale may have been for the variable rate structure in 1904, it is difficult to justify on any

logical or consistent basis today. For example, while it may have appeared reasonable to apply a higher tax rate to wholesale than to retail business in 1904 on the grounds that wholesale businesses tended to be larger, this is difficult to rationalize in the economy of the 1990s.

At the same time, however, collapsing the schedule of rates into a single rate would result in significant tax shifts within the business sector. Current estimates suggest that the province-wide, revenue-neutral uniform rate would be approximately 45%, a rate that would result in a 50% business tax rate increase for many small businesses currently in the 30% rate category. The tax is also criticized by business taxpayers on the grounds that the level of the tax bears no relationship to the health or level of activity of the business. In particular, it is noted that business taxes contribute to a generally higher level of property taxation on commercial and industrial property in Ontario than in jurisdictions in the United States.[31]

The fact that the liability for business tax is attached to the person operating the business rather than to the property on whose value the tax is based creates significant collection problems for local government. Unlike property taxes, where the ultimate recourse for unpaid taxes is the registration of an enforceable lien against the property, there is no effective recourse for the municipality for collection of unpaid business taxes. A 1987 survey of 38 municipalities conducted, for the Municipal Financial Officers' Association, found that municipalities incurred extraordinary collection costs of $2.4 million and a loss of revenue from write-offs of uncollectable business taxes of $4.88 million. Evidence from larger municipalities suggests, that in the current depressed economic environment, collection and write-off problems are significantly greater than they were in 1987. The City of Toronto, for example, budgets approximately $1 million a year for uncollectable business taxes – funds that have to be provided through higher rates on other taxpayers.

Two broad approaches to reform have been suggested. One approach is to retain the link to property assessment but with a uniform rate structure. The other is to replace the business tax entirely with another form of business taxation more closely related to the level of business activity. With a uniform rate structure, the tax could either continue to be an obligation of the occupant of the property or could be folded into the commercial/industrial tax rate as an obligation of the landlord. While folding the business tax into the commercial and industrial property tax would address the collection problems faced by local governments, any such move would have to take into account the difficult transitional problems created by long-term leases. Such problems would have to be dealt with in the legislation. In addition, the design of the tax would have to include a

31 While evidence suggests that business pays a higher proportion of property taxes in Ontario than in other comparable jurisdictions, a number of additional factors must be taken into account in evaluating this evidence. First, jurisdictions in the United States rely much more heavily on user charges, payroll taxes and on tax bases other than property as revenue sources than is the case in Ontario. Second, it is misleading to make such comparisons on the tax side of the ledger only, without reference to the services that are provided from those taxes.

vacancy allowance similar to that for commercial and industrial property tax. (At present, vacant commercial and industrial properties are taxed at the lower residential rate.)

Another option would be to eliminate the business tax altogether. The local revenue loss could be offset by transferring equivalent expenditure responsibilities to the provincial government. In the context of this report, the obvious candidates for such a transfer would be services which, under the criteria established by the working group, should be funded from taxes related to ability-to-pay. For example, business tax revenue could be offset against the municipal share of welfare costs or a portion of the local share of education costs. The revenue would then be replaced at the provincial level either from general revenues or from a business tax which is better related to the level of business activity, such as a payroll tax.

The case for the replacement of the business tax altogether is compelling. However, any fundamental change in the system would result in substantial tax shifts within the business sector. Unfortunately, it is not possible using existing sources of data to analyze the impact of a shift in business taxation from property-based taxes to payroll or other taxes. The impact of these shifts should be analyzed carefully prior to a decision to eliminate the business tax.

RECOMMENDATION #26 – THE BUSINESS OCCUPANCY TAX

A study should be done of the economic impact of various alternatives to the business tax as a source of revenue from business activity;

Ways of replacing any lost revenues for local government should be studied; and

Until such a study is completed, the business tax should continue as a responsibility of the business occupant.

Commercial Concentration Tax

The Commercial Concentration Tax (CCT) is an annual tax levied by the provincial government on large commercial structures and commercial parking lots and garages within the Greater Toronto Area (GTA).[32] These structures are taxed at the rate of $1.00 per square foot for each square foot in excess of 200,000 square feet in area. When the tax was introduced in 1989, it was linked to a five-year $1.2 billion public investment in transportation infrastructure in the GTA.

The tax was put forward as a way to pay for improvements to the transportation system in the GTA. Since the provincial government does not earmark revenues for specific purposes, there is no assurance that the funds raised by the CCT are used for this purpose.

32 Office for the Greater Toronto Area (GTA) was established by the provincial government to coordinate public policy responses to issues affecting local governments in the regional area centred in Metropolitan Toronto. The geographic area described as the GTA consists of Metropolitan Toronto and the Regional Municipalities of Halton, Peel, York and Durham.

The tax has been severely criticized by local governments in the GTA as an unwarranted incursion by the provincial government into what has traditionally been seen as a local tax base. There is some evidence that the province's "invasion" of the local tax base has been more than symbolic. In the assessment appeal process, it appears that, the CCT is being taken into account in determining the assessed value of commercial properties, with a corresponding negative effect on the local tax base.

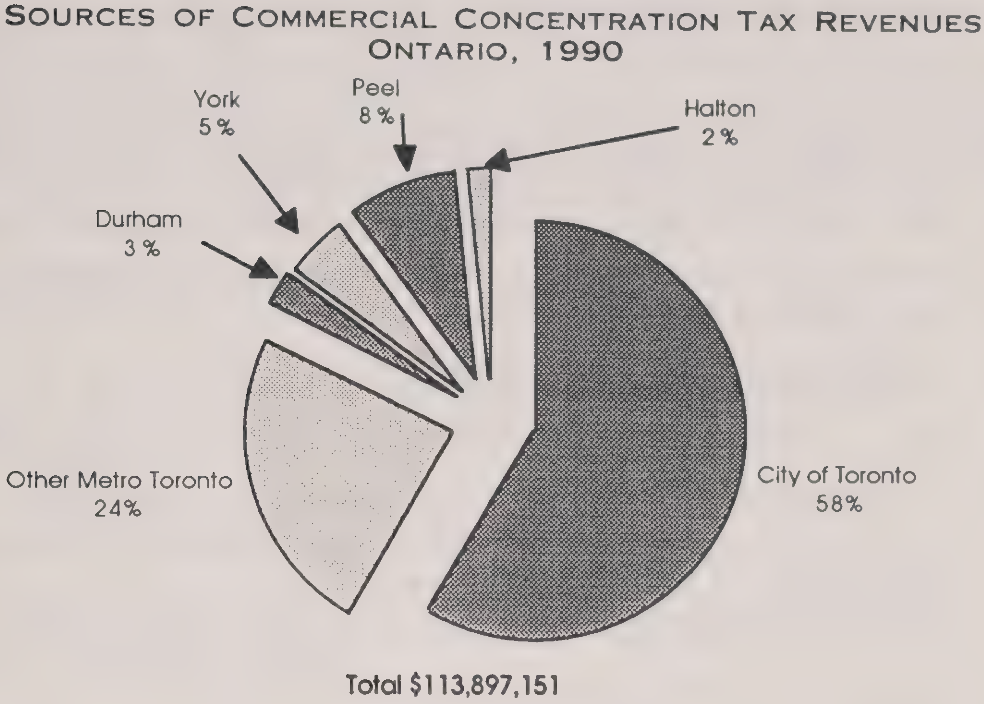
The fact that the tax applies only after an arbitrary property area in square feet has been reached creates inequities in the commercial property market between landlords with smaller buildings and landlords with larger buildings. It has also resulted in changes in business activity aimed at tax avoidance. Some are simply paper exercises, aimed at reducing the size of the parcel of land or legally registered portion of a building below the threshold of 200,000 square feet.

Other tax avoidance methods have potentially more serious implications. They involve redesigning projects to produce individual buildings under the benchmark area and other direct development pattern changes. To the extent that these attempts to avoid the CCT reduce the concentration of commercial activity the tax may actually frustrate the urban infrastructure goals that the tax was ostensibly created to support. There is also widespread evidence that the tax has discouraged the maintenance and development of commuter parking facilities linked to transit around Metropolitan Toronto. Again, this impact would appear to be in conflict with the original justification advanced for the tax.

Most of the revenue from the Commercial Concentration Tax comes from Metropolitan Toronto, and much of that from the central business district of the City of Toronto, as the following chart shows.[33]

33 1992 Commercial Concentration Tax Register, Ministry of Revenue

Chart 18.



The Commercial Concentration Tax is difficult to justify as a fair way to fund infrastructure improvements. Of the $113 million raised by the tax in 1992, more than 80% is raised in Metropolitan Toronto, 58% from the core area of the City of Toronto alone. While it is clearly important to provide for the funding of infrastructure improvements, the CCT raises the question of why the money must come from a special tax in the GTA while in the rest of the province it comes from provincial general revenues.

RECOMMENDATION #27– THE COMMERCIAL CONCENTRATION TAX

The Commercial Concentration Tax should be abolished and alternative approaches be developed for the funding of infrastructure in Ontario.

Provincial Land Tax

The Provincial Land Tax (PLT) is a provincial tax applied in parts of Ontario which are not organized for municipal purposes. The Provincial Land Tax base is essentially a scaled-down version of the assessment base as set out in the *Assessment Act*, although there are some significant differences in both assessment practices and exemptions. For example, farmers (referred to as "bona fide settlers") are exempt from tax, as are landowners in four townships in the District of Manitoulin.

The Provincial Land Tax assessment base also serves as the tax base for local services boards (optional bodies, which may deliver such local services as fire protection, water supply, garbage collection, sewage, street lighting and recreation) and local roads boards (as well as statutory labour boards) which maintain local roads in conjunction with the provincial Ministry of Transportation.

Residents of unorganized territory also pay property taxes to support education services. To complicate matters further, the assessment base for the education tax is determined under the *Assessment Act*, rather than the *Provincial Land Tax Act*. Because the assessments are prepared on different bases of valuation, the assessments under the two acts tend to be significantly different.

For the 1992 tax year, the PLT assessment base was just over $340 million with an anticipated tax yield of $5.8 million.

The Provincial Land Tax gives rise to a number of issues.

- The tax rate (1.5% of assessed value) has not been changed since 1954.
- Assessment is based on values in the 1940s.
- There is substantial duplication between assessment for PLT purposes and assessment for education finance purposes.
- The system of exemptions from PLT is antiquated and unrealistic.
- The PLT is not related in any way to local public benefit. The PLT is not distributed directly to finance local services but rather is a provincially administered levy deposited into Ontario's Consolidated Revenue Fund. Justification of the levy is problematic given that additional levies are imposed by special purpose bodies for other municipal type services.
- The low rate of tax in unorganized territory acts as a disincentive for local government organization in these areas, particularly where the unorganized territory is on the fringe of an organized municipality. In these areas, residents are in a position to "free ride" on local municipal services and pay taxes at a small fraction of those paid in the neighbouring municipality.
- For organized areas, there is a procedure set out in the *Municipal Boundaries Adjustment Act* through which urban areas can annex parts of neighbouring municipalities. This permits urban area political boundaries to be changed so that the entire geographic area affected by urban development in an area falls within a single local government jurisdiction. There is no corresponding procedure for municipalities adjacent to unorganized territory.

RECOMMENDATION #28 – THE PROVINCIAL LAND TAX IN UNORGANIZED AREAS

A special procedure should be developed to facilitate the expansion of the borders of organized communities in Northern Ontario to encompass residential areas and economically-related industrial areas located in unorganized territory on the fringes of organized communities.

For other unorganized areas in Northern Ontario, the preferred option would be to develop and recognize a form of local government appropriate to the size and location of the communities and the scope of the public services they offer.

Where local government organization is possible, the Provincial Land Tax should be replaced by appropriate local taxation.

Where this is not possible or appropriate, the Provincial Land Tax should be set at a level designed to eliminate any incentive to locate in unorganized territory on the fringes of organized communities.

The assessment base for the provincial land tax should be the same as that for municipal and education taxation.

Provincial Land Tax revenues should be directed by the provincial government to the organized municipalities in Northern Ontario in the form of enhanced grants.

Infrastructure funding

The problems with the Commercial Concentration Tax notwithstanding, the financing of infrastructure is an extremely important issue. The Federation of Canadian Municipalities has drawn attention to the deterioration of the physical infrastructure of urban areas in Canada as federal funds have been withdrawn and provincial governments have had to deal with increasingly difficult financial circumstances. As federal and provincial capital funds have dried up, municipalities have looked to the development process itself as a source of funds for infrastructure development.

The capital financing and intergenerational equity issues in infrastructure financing became major issues in the 1980s and resulted in changes to legislation on development charges. Municipal practices of imposing infrastructure charges on new developments were officially recognized. In addition, the authority to set development charges was extended to school boards.

The traditional argument for development charges (also called lot levies) has been that new residents should pay for the capital assets required to service new residential communities and that the existing residents should not have to subsidize new growth. This philosophy was reflected in the _Development Charges Act_, which limits the use of these funds to servicing the needs of new developments. Weighed against this argument, however, are intergenerational equity concerns that arise

from the use of current revenues to finance expenditures from which the benefits accrue over an extended period of time.

The use of development charges to finance infrastructure for growing areas has generated legal controversy as well. Various builders' organizations have challenged school board bylaws in court. Municipal bylaws are also being challenged on technical grounds at the Ontario Municipal Board.

The provision of infrastructure to serve a growing urban population in this province during a period of extreme fiscal constraint will require new and innovative approaches that eliminate inefficiency and duplication and make the most of scarce infrastructure dollars. Innovative approaches to the design and use of local facilities to enhance the efficiency of local capital spending will be important. In addition, the standards required for new developments must be examined carefully to ensure that they actually deliver value for money.

RECOMMENDATION #29 – INFRASTRUCTURE FINANCING

Since government funding is at present limited, public-private sector partnerships in the provision of infrastructure should be encouraged where the private sector partner can demonstrate efficiencies in construction or financing of a community facility.

The provincial government and municipalities should be encouraged to consider innovative urban development standards that can achieve desired infrastructure objectives at reduced cost and to review carefully the need for, and value of, stringent standards currently applied to many new developments at significant cost to the eventual residents in those developments.

Federal and provincial governments should be encouraged to increase funding levels for significant infrastructure projects which promote broader policy goals such as environmental conservation (mass transit, sewage and water treatment), economic development (improved transportation and telecommunications systems) and the development of a more highly skilled workforce (universities, colleges and schools).

Flexible, multiple-use centres should be considered for community-based services, including schools.

The *Planning Act* should be amended to require that developers contribute land and/or funds to school boards for school construction.

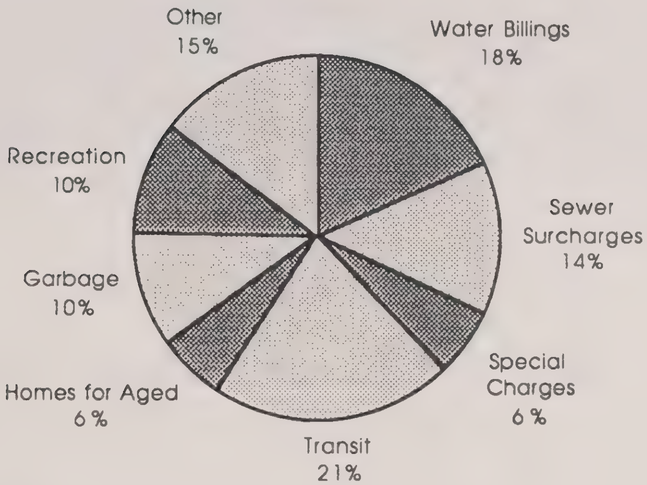
School boards should be included at the initial stages of the municipal planning process for new communities and developments so that suitable sites can be located for schools and the joint planning of community and social services can be facilitated.

User fees

User fees are already a significant source of local revenue in Ontario. The principal components of user charges include water billings and sewer surcharges, other special charges, transit fees, the fees of residents in homes for the aged, and charges for recreational services, waste disposal and day nurseries.

Chart 19.

DISTRIBUTION OF MUNICIPAL USER FEES, ONTARIO, 1990



Municipal user fees in total increased from just over $800 million in 1977 to $3.5 billion in 1992. As a percentage of municipal revenue, fees increased during the 1980s from 22% in 1980 to a high of 25% in 1989. Since 1989 user fees have dropped again to less then 22% of municipal revenues, primarily as a result of the near-collapse in tipping fee revenue. This is the result of the combined effect of the decline in industrial activity generally, but particularly in construction, and the rapid growth in the export of waste to cheaper dump sites in the United States.

Chart 20.

MUNICIPAL USER FEE REVENUE
1977 TO 1992 ONTARIO

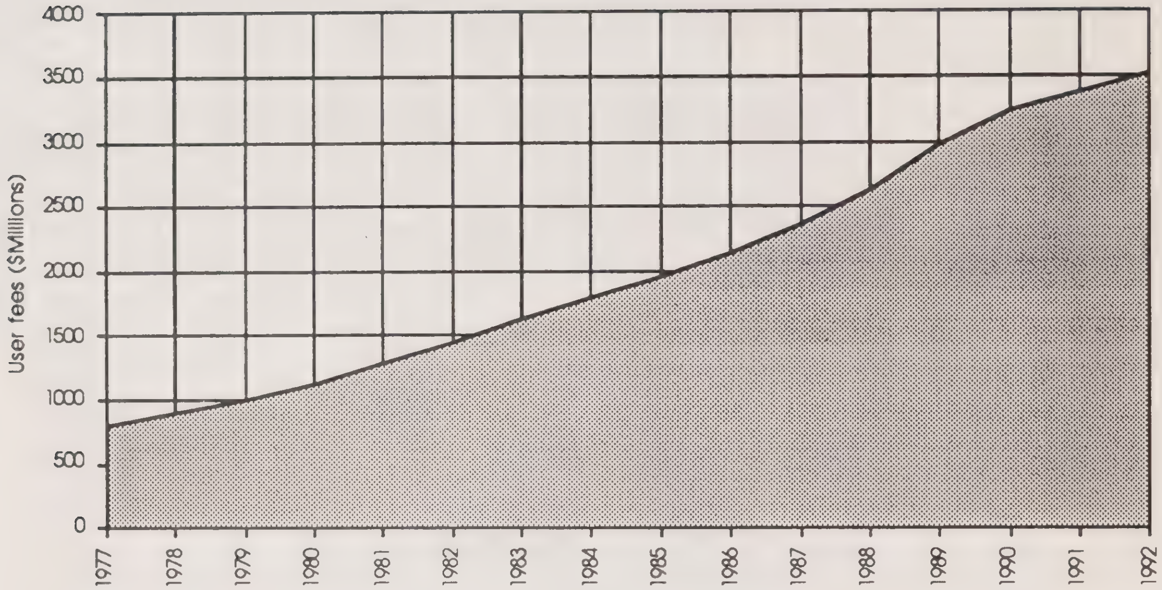
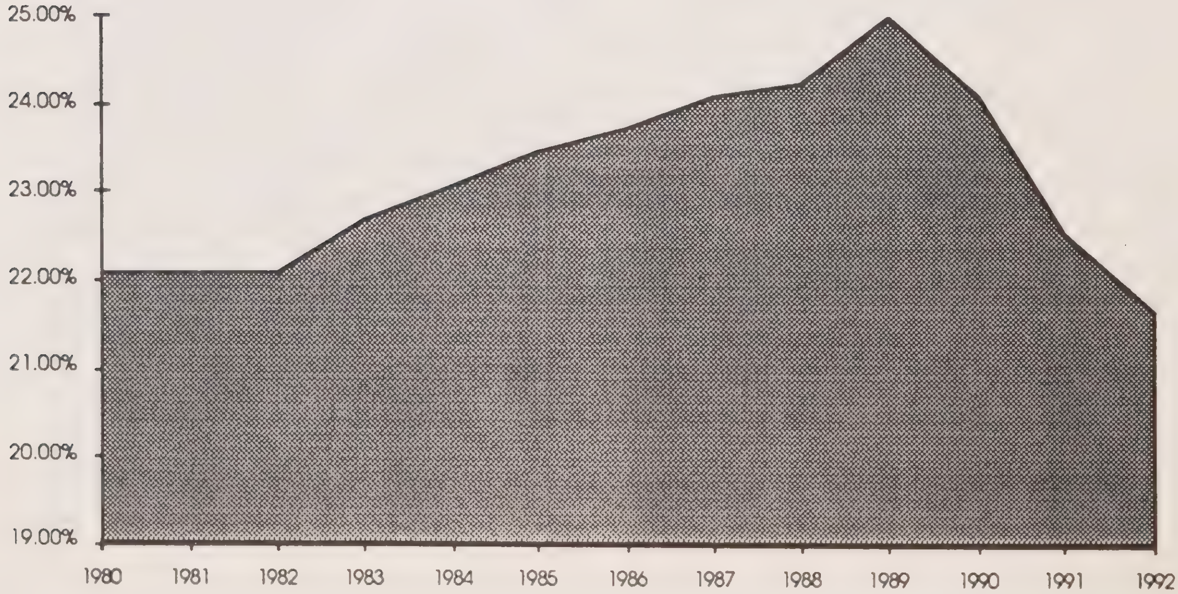


Chart 21

USER FEES AS A PERCENTAGE OF MUNICIPAL REVENUE,
ONTARIO, 1980 TO 1992



A recent survey of municipalities in southern Ontario [34] found that those surveyed based their user charges on average cost pricing. It also found that most of the charges did not provide revenue sufficient to finance capital replacement. Generally, these funds are remitted to the municipal general fund, although typically in large municipalities, water and sewer revenues and transit fees are dedicated to financing of those services.

There is a broad consensus that the pricing of water and sewer services as well as waste collection and disposal must begin to reflect the true cost, without subsidy, of providing these services. The costs should also reflect an allowance for the replacement of depreciated capital in order to fund replacement.

A wider role for user fees may have a negative impact on low-income consumers. In addition, there is a danger that fees might act as a deterrent to the use of certain public services (such as transit).

The Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship (the Hopcroft Report) recommended that:

> "Municipalities should be given the authority for more flexible use of user fees to mitigate costs imposed on municipalities. When municipalities establish user fees, the following conditions should be borne in mind: the benefits are quantifiable and have little [sic] spillovers; charges should consider the consumer's ability to do without the service or good; and charges should be designed to maximize accountability."[35]

User fees can be designed to encourage certain kinds of consumer behavior. They are particularly appropriate when benefits can be defined and specific users isolated. Consequently, they can be used as instruments for environmental change. For example, user fees for environmental services such as water, sewer and waste disposal can influence ratepayers' choices in their consumption of those services. One member of the working group cited evidence that increased tipping fees at waste disposal sites led to a 25% reduction in waste on construction sites.

The application of these general concepts is not particularly difficult in the area of water and sewer services. With respect to waste management and disposal, however, a number of additional factors must be taken into account. The provincial government is currently developing a comprehensive waste management policy framework for local governments across Ontario. Municipalities are currently being required to develop comprehensive waste management master plans. Central to these plans is the goal of implementing new waste reduction, reuse and recycling

---

34 M. Sproule-Jones and J. White, "The Scope and Application of User Charges in Municipal Governments", Canadian Tax Journal, v.37, #6, Nov.-Dec, 1989, p.1484.

35 Ontario Ministry of Municipal Affairs, Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship, Ontario, 1990, p. 105.

measures. The implementation of these measures will require investment in new infrastructure including materials handling facilities, composting systems and upgrading existing disposal facilities.

The management of the waste stream can be broadly separated into three functions: collection, diversion and disposal. Collection broadly defined includes the removal of garbage and source-separated materials from the curbside or the premises of municipal taxpayers. The transportation of that waste to diversion or disposal facilities is part of the collection process. Diversion refers generally to measures such as recycling designed to reduce the amount of waste that must be disposed of in landfills. Recycling programs currently exist in 400 municipalities. Disposal in Ontario is largely done through dumping in landfill sites. The new policy framework intends that landfill become less important as the solution to waste disposal.

At present, municipalities cannot impose special levies for waste collection. The costs of collection must be recovered through general property tax revenues. As a result, there is little incentive either for individual taxpayers to reduce waste or for municipalities to provide higher-cost collection services to meet special needs. Generally, the collection activities of the municipal sector are oriented to servicing the residential community.

For disposal, municipalities can charge tipping fees. As the industrial, commercial and institutional (ICI) sector accounts for more than 60 per cent of all waste generated, many municipalities which have landfill capacity have tried to increase fees so that they are sufficient to fund recycling and other environmental programs as well as the operation of the disposal facility itself.

Three categories of municipalities can be identified:

- those that have sufficient landfill capacity to generate significant ICI-based revenues;
- those with their own landfills sufficient only to provide for their residential needs;
- those dependent on private disposal.

Tipping fees in the province have escalated as a consequence of two factors:

- a shortage of licensed capacity;
- tacit provincial approval of municipal action to raise fees as a method of encouraging conservation.

There is no requirement that waste be dumped in public sites, even where municipalities have sufficient landfill capacity to address the entire waste stream. As a result, private sector waste generators have sought alternative outlets for disposal to avoid payment of high tipping fees. Recently, there has been significant growth in the export of waste for cheaper disposal in the United States. This has resulted in revenue losses for municipalities. Simultaneously, municipalities have experienced increased waste management costs. These result from new and more stringent envi-

ronmental protection regulations as well as the increased costs associated with recycling programs.

Currently no level of government has the power to direct the waste stream. There is no effective means to ensure that the revenues that can be generated from commercial waste disposal are available to fund related environmental programs. Disposal revenues are a type of environmental tax. They should be available to local governments to use to pay for waste management.

CONCLUSION #6 – CRITERIA FOR USER CHARGES

User charges may be appropriate where:

there is a clear relationship between fees paid by users and benefits received by users;

the taxpayer has a choice as to the extent to which he/she uses the service;

it is administratively feasible to collect the charge at a reasonable cost;

a goal of the user charge is to influence the use of the service;

the benefits can be quantified and attributed to the user; and

concerns with respect to equity of access can be appropriately dealt with in the design of the charge.

RECOMMENDATION #30 – USER FEES FOR ENVIRONMENTAL SERVICES

User fees should be used to raise revenue and to help modify behavior (example: garbage collection levy to decrease waste). Municipalities should be given more authority to levy user fees than is permitted in current legislation.

The fees charged for water and sewer services should be based on the true cost of providing those services, including anticipated capital replacement costs.

Assessment-based charges for water and sewer services should be replaced by metering of all consumption.

Flat rate and declining block rate structures should be replaced by rate structures that encourage conservation of natural resources and reduce the need for expanding infrastructure.

Municipalities should be given the authority to charge for waste collection directly.

Rate structures for collection and disposal of waste should reflect full cost accounting for long-term site maintenance and replacement costs.

The provincial government should enact a package of legislative measures to facilitate access by local governments to future industrial, commercial and institutional disposal revenues to fund needed environmental programs. Such measures should include full flow control powers and assistance in finding and acquiring suitable landfill capacity to handle all waste generated within the jurisdiction.

Compliance issues must be considered in the implementation of user charges for residential waste collection.

V. TAX MIX, GRANTS, AND INDIVIDUAL TAX RELIEF

The defects in the current property tax have implications for a number of related government programs. This section deals with the overall issue of the role of the property tax in the local tax mix and with other related issues.

Tax mix

Property tax currently dominates the mix of revenue sources devoted to the funding of local government in Ontario. For both municipalities and school boards, the property tax is the largest single source of revenue. School boards are even more heavily dependent on the property tax as a source of revenue than are municipalities. Approximately 53% of the property tax bill in Ontario (including payments-in-lieu of taxes by federal and provincial governments) is devoted to the funding of education.

Two of the conclusions reached in this report have significant implications for the role of property tax in the mix of taxes used to fund the services currently provided by local government and funded, at least in part, by local government.

First, services that generate significant spillover benefits or that serve income redistributive or other broad public policy objectives are most appropriately funded from revenue sources based on ability-to-pay. The major services that would fall into this category are education and social services generally, particularly welfare.

Second, the property tax is regressive and, at the level of the individual household, demonstrates no statistically significant relationship to ability-to-pay. The property tax, in fact, has a weaker relationship to ability-to-pay than would a poll or head tax.

Taken together, these conclusions establish three basic points of departure for a discussion of tax mix. First, Ontario's dependence on the property tax as a source of revenue for education and social services programs should be reduced. Second, the most effective way to improve the fairness of the local revenue system in relation to either ability-to-pay or user-pay criteria is to reduce the level of property tax relative to other revenue sources. The evidence suggests that the property tax cannot be made into either an ability-to-pay tax or a user fee by changing the assessment base. This conclusion implies a shift to ability-to-pay taxes for some services and to user charges at the local level for others. Third, to the extent that the fiscal circumstances of 1992 make major tax mix changes impractical, special attention must be paid to the use of provincial transfer and equalization payments to offset inequities created by the current local revenue system.

Beyond stating its firm conclusion that the tax mix for local government should be changed to reduce Ontario's overall dependence on property taxes as a source of revenue, the group makes no recommendation with respect to the extent and timing of such changes. The goal should be to achieve a dramatic reduction in Ontario's

dependence on property taxes for the funding of education and other social services. The appropriate timing will depend on fiscal and economic circumstances and their effect on the ability of the economy to absorb changes in tax mix. It should be emphasized, however, that as important as the issues of which level of government's taxes are going up and which level of government's taxes are going down may be to our institutions of government, what matters to taxpayers is the fairness of the overall system of taxation.

Beyond these fiscal realities, there are other important reasons why funding for education and social services should not be shifted totally from the property tax base. The important values of shared provincial/local responsibility and local autonomy and accountability suggest that it would not be desirable to shift entirely to provincial funding for all of these services. This in turn means that reforms to both the provincial equalization grants system and the provincial property tax credit system are essential to the achievement of the goals of tax and service fairness that these programs are intended to support.

RECOMMENDATION #31 – TAX MIX

Ontario's dependence on the property tax as a source of revenue for education and social services programs should be reduced.

CONCLUSION #7 - TAX MIX AND EQUALIZATION

The most effective way to improve the fairness of the local revenue system in relation to the ability-to-pay criterion is to reduce the level of property tax relative to other taxes.

To the extent that current fiscal circumstances make major tax mix changes impractical, special attention must be paid to the use of provincial transfer and equalization payments to offset inequities created by the current local revenue system.

Reforms to both the provincial equalization grants system and the provincial property tax credit system are essential to the achievement of the goals of tax and service fairness that these programs are intended to support.

Social services funding

The largest component of social services spending at the local level in Ontario is General Welfare Assistance (GWA). The basis for funding of this program makes no allowance for differences in the funding base or ability-to-pay of the community responsible for the program. GWA is a mandatory program, with costs shared 80% provincial, 20% local. The size of the welfare case load varies widely across the province. In part, this is due to differences in local economic conditions resulting in different impacts on the local population. In addition, limited employment opportunities and local government policies in some areas result in the migration of welfare recipients to other jurisdictions.

The result is that residential property taxes for social assistance benefits vary widely as a proportion of household income in jurisdictions responsible for general welfare assistance. Table 4 shows that residential taxes for social assistance vary from a high of $1.62 per $1,000 of household income in Wellington County to $0.10 per $1,000 of household income in Perth County. This is a dramatic variation in expenditures associated with a program that is intended to be broadly comparable across the province.

Table 4.[36]
Residential Property Taxes for Social Assistance Benefits per $1,000 of Household Income Ontario 1990

Jurisdictions Responsible For Social Assistance

Municipality	$		Municipality	$
Wellington County	$1.62		Dufferin County	$0.47
Ottawa - Carleton	$1.29		Essex County	$0.44
Prescott and Russell	$1.27		Bruce County	$0.43
Sault Ste Marie C	$1.19		Brant County	$0.42
Kingston C	$1.17		Lennox and Addington	$0.42
Smiths Falls T	$1.17		Peel Region	$0.37
Hastings County	$1.15		Muskoka District	$0.37
Peterborough C	$1.12		Niagara Region	$0.35
Sudbury Region	$1.07		Renfrew County	$0.33
Cornwall City	$1.03		Stormont, Dundas, Glengarry	$0.32
London C	$0.96		Haldimand-Norfolk Region	$0.31
Hamilton-Wentworth Region	$0.93		Victoria County	$0.30
Belleville C	$0.90		York Region	$0.27
North Bay C	$0.79		Halton Region	$0.26
Metropolitan Toronto	$0.78		Haliburton County	$0.26
Kent County	$0.78		Lambton County	$0.25
Windsor C	$0.78		Brantford C	$0.23
Orillia C	$0.74		Prince Edward	$0.23
Guelph C	$0.70		Peterborough County	$0.23
Brockville C	$0.67		Sarnia C	$0.22
Chatham C	$0.66		Northumberland	$0.21
Waterloo Region	$0.65		Stratford C	$0.20
Timmins C	$0.64		Trenton C	$0.19
Grey County	$0.58		Leeds & Grenville	$0.18
Thunder Bay C	$0.58		Middlesex County	$0.18
Durham Region	$0.54		Renfrew County	$0.17
Barrie C	$0.52		Huron County	$0.15
Lanark County	$0.51		Elgin County	$0.15
Oxford County	$0.50		Simcoe County	$0.15
Pembroke C	$0.50		Perth County	$0.10
St Thomas C	$0.48			
AVERAGE		$0.62		

36 In Frontenac, Renfrew and Peterborough Counties, lower-tier municipalities are responsible for social assistance. Figures shown are totals for these county areas, excluding separated cities. Figures for separated cities which deliver social assistance are shown separately from the figures for the counties in which they are located. Figures for Grey County and Owen Sound have been combined. Where lower-tier municipalities within a county have the responsibility for the delivery of social assistance, the county figures reflect the total of the area municipalities' expenditures.

Discussions are currently under way between the provincial government and the Association of Municipalities of Ontario in the Provincial/Local Relationship Review to develop a basis for transferring full responsibility for general welfare assistance to the provincial government.

RECOMMENDATION #32 – FUNDING OF GENERAL WELFARE ASSISTANCE

The provincial government should assume full funding for welfare services, and the resultant benefits to municipalities should be distributed among municipalities based on their costs for welfare services.

Equalization

The argument for equalization payments rests on the proposition that governments should have similar capacities to provide services, regardless of their local economic bases. The objective implicitly is to ensure that an individual should not be deprived of public services simply because he or she lives in a jurisdiction that lacks the fiscal capacity to provide those services. In the absence of such payments, the cost to the taxpayer of a given level of service will be higher in a municipality with a comparatively weak tax base than it is in a municipality with a comparatively stronger tax base.

Support for local services can be provided in two ways. Assistance can be provided to the local government providing the services. This offsets a portion of the cost of providing the service, thereby reducing the amount that has to be raised from local taxpayers. Alternatively, assistance can be provided to taxpayers directly based on their individual financial circumstances. The practice in Ontario is to do both. The provincial government addresses inequities in the fiscal capacity of local governments through the provision of equalization assistance. For individuals, equalization is delivered through the tax credit system administered through the personal income tax.

Although in principle the provincial government could concentrate its assistance exclusively on either individuals or institutions, the working group believes that there are strong reasons for continuing to provide both types of assistance. Because the property tax is so highly variable in its impact upon individuals, no system of equalization provided to government institutions could conceivably eliminate the need for direct assistance to individuals. At the very least, special assistance would be required to deal with cases of extreme hardship. A shift entirely to individual tax relief, however, would fulfill only half of the purpose of equalization. It would sever the link between equalization and provincial standards for services delivered locally.

Having determined that equalization payments to local governments to support provincially mandated services should be continued, the working group addressed the question of how equalization payments should be allocated among local governments in Ontario.

In Ontario's local government finance system, equalized assessment – local assessment adjusted to reflect current market values – has traditionally been used as the principal indicator of need in allocating equalization grants. In the current system of education funding, for example, equalized assessment is used as the basis for allocating provincial grants to school boards through the general legislative grant.[37]

The actual method of equalizing education taxes consists of establishing an equalized mill rate that each school board is to apply to its local equalized assessment base[38] to determine the property tax. The provincial grant to a school board is the difference between its total recognized expenditure and the yield from the application of the equalized mill rate on the board's equalized assessment base.[39] As a result of the application of this formula, school boards that have a relatively large amount of equalized assessment per student receive little if any of their recognized operating expenditures in the form of grants, while boards that have relatively small amounts of equalized assessment per student receive a significant portion of their recognized operating expenditures in the form of provincial grants.

The above process can be characterized as an attempt to achieve fairness on a province-wide basis by ensuring that similar properties of similar value pay the same taxes for comparable services. In theory, the model attempts to ensure that a $100,000 residence will pay the same taxes wherever it is situated in the province. In practice, however, the variance in local assessment systems across the province ensures that this goal cannot be achieved. In addition, there is a serious question as to whether the attainment of the goal of equalized tax rates would result in a fair distribution of taxes on an ability-to-pay basis. Tax incidence data prepared for the working group show that, in general, equalized assessment is not highly correlated with income on an individual basis

Assessment is consequently not an adequate basis for comparisons of ability-to-pay between individual households. There is no reason in general to expect that assessment would be any better as an indicator of ability-to-pay for communities than it is for individual households. Residential assessment is not a measure of ability-to-pay. It is a measure of the cost of housing in the community. Using assessment as the basis for provincial equalization as the basis for provincial equalization assumes

37 Although a portion of the municipal unconditional grant was previously linked to equalized assessment, that limited linkage no longer prevails after several years of across-the-board percentage increases. With unconditional grants being used as the balancing factor in disentanglement negotiations between the Province and the Association of Municipalities of Ontario, any vestige of a link to equalization will disappear.

38 For education grant purposes, equalized assessment reflects not only current market value but also the application of a discount factor to residential assessment to reflect the fact that residential properties are generally assessed at a lower percentage of market value than are commercial and industrial properties.

39 While this method is used by the provincial government to calculate its grants to school boards, the system does not require school boards either to levy the "standard mill rate" or to spend the "recognized level of spending". Although a few boards spend more than the recognized amount and tax at a rate higher than the standard equalized mill rate, some boards spend and tax at less than these amounts and rates.

implicitly that the higher the cost of housing in a community, the greater the ability-to-pay of the community. There is no reason to assume that this is in fact the case.

The analysis of residential assessment in this report suggests that a more appropriate approach to equalization would base payments to local government institutions on the taxpayer impact associated with a given level of service rather than on the equalized assessment base. For commercial and industrial taxpayers, that impact would appropriately be measured by the effective rate of tax paid to support a provincially mandated level of service[40]. In a reformed system, commercial and industrial taxpayers with similar properties should pay similar rates of tax for provincially mandated services.

For residential taxpayers, however, equalization payments to local government institutions based on equalized assessment bear no necessary relationship to the ability-to-pay of the community. A more appropriate system would take into consideration average ability-to-pay measured by household income.

Property tax relief for individuals

As the incidence data presented with this report make clear, the residential property tax is regressive. On average, property taxes decline as a percentage of household income as income increases. In addition, the proportion of household income devoted to property taxes varies substantially within income groups. Within the same income group, the impact of property taxes will be moderate for some households and impose real hardship on others. As chart 8 in this report shows, the property tax credit moderates, but does not fully redress the negative impact of property taxes.

Three of the recommendations in this report will have some effect on the impact of the property tax on household incomes. First, it is likely that the recommendations for consistency in assessment practices within the residential sector will result in a reduction in effective tax rates on rental property. Since tenants tend to have lower incomes than owner-occupiers, a general reduction in property taxes on rental property would tend to moderate the general regressive pattern.

Second, equalization payments based on residential tax impacts on average household incomes will cushion some of the more extreme impacts of property tax in areas of high housing cost relative to income.

Third, a shift from property taxes towards revenue sources more closely related to ability-to-pay will both reduce the impact of property taxes and improve the overall progressivity of the tax system.

Even with these changes, however, the weakness of the relationship between property tax obligations and ability-to-pay will result in household income impacts that require special property tax relief.

---

40 The task of defining the "provincially mandated level of service" in education is a principle task of the Education Finance Reform project.

Property tax credits

The existing income-tax based property tax relief programs in Ontario are as follows:

- The Ontario Property Tax Credit: A refundable tax credit for homeowners and tenants administered through the provincial personal income tax system. The Ontario Property Tax Credit is based on the lesser of $250 or occupancy cost (property taxes for homeowners, and 20 percent of rent in the case of tenants), plus 10 percent of occupancy cost, less 2 percent of net household income over $4,000. The property tax credit is combined with the sales tax credit; the combined maximum is $1,000.
- The Senior's Tax Credit is based on the lesser of $500 or occupancy cost, plus 10 percent of occupancy cost, less 4 percent of net household income over $22,000. The property tax credit is combined with the sales tax credit; the combined maximum is $1,000.

The existing provincial tax credit programs are not identified by the public as being related to property taxation. The timing of payments is not linked to property tax obligations. The formula for calculating the base credit includes property taxes (and a percentage of rent for tenants) but does not directly tie the credit base to actual property taxes paid. The fact that the payments are included with federal income tax refund cheques makes it unlikely that the relief provided will be associated with property tax obligations. A more explicit program would serve the purpose better.

Concern has also been raised that some individuals who qualify for credits do not receive them for a variety of reasons. A change in the administrative system for property tax credits to make the link between credits and property taxes more explicit should be accompanied by increased efforts to improve the take-up rate for these tax relief measures.

RECOMMENDATION #33 - PROPERTY TAX CREDIT

The property tax credit should be revised to link credit base ("occupancy cost" in the current system) directly to property taxes actually paid, including apportionment of property taxes paid on rental property on behalf of tenants, and to link the timing of payments to the timing of property tax obligations.

Property tax credits should not be dependent on the age of the applicant.

Other programs of tax relief

In addition to the property tax credits administered by the province through the income tax, there are several local and provincial programs that permit various forms of property tax relief.

- *The Municipal Elderly Residents' Assistance Act*: The Act permits individual municipalities to provide local tax credits to eligible seniors households. The credits may be either a fixed amount or a levy or percentage of a levy and are implemented through a bylaw.
- Private Legislation: At local discretion, municipalities may apply for special legislation to permit local adoption of a tax relief scheme not normally permitted under the authority of the *Municipal Elderly Residents' Assistance Act* or the *Municipal Act*. The legislation generally permits a tax deferral of part of the overall taxes, with the amount deferred being a lien on the property.
- Disabled and Seniors in the Community Program: This program provides property tax exemptions for improvements and renovations made to enable seniors and people with disabilities to live in their own homes.

Several other provincial programs provide for direct rebates to owners of properties in certain use categories, including farmland and farm buildings, managed forests, and conservation land.

The working group considered the possibility of broadening the scope of the current private legislative authorizations for tax deferral mechanisms for seniors into a general provincial program. The working group concluded that since this may be an appropriate option only in some municipalities, general legislation is not appropriate and municipalities should continue to seek private legislation as a response to local conditions.

RECOMMENDATION #34 - LOCAL PROPERTY TAX RELIEF

The Disabled and Seniors in the Community Program, and the *Municipal Elderly Residents Assistance Act* should be continued.

The existing practice of approving private legislation for individual municipalities to permit partial property tax relief via tax deferrals should be continued.

VI. EDUCATION FINANCE

Many of the issues that arise in education finance are general issues which have already been discussed. Most notable is the working group's conclusion, stated earlier, that the property tax is ill-suited to be used as a principle means of financing education because of its almost-random relationship to ability to pay.

In this section, the special problems of education financing are analyzed in more depth. Because of its importance—outweighing all other local expenditures combined—the effects of defects in education financing have far-reaching effects.

Equity principles

The working group's recommendations are based on the following equity propositions.

For students:

- The overall goal of our system of education, from the perspective of the student, is to enable each student in the system to develop to his or her full potential. The overall equity objective of the system must therefore be to achieve this goal for every student. Equality of opportunity, access and quality of service are important targets in our system of education as proxies for this overall goal.
- The ability of the education system to deliver provincially mandated services to students in Ontario should not depend on the financial resources available locally to the school board responsible for their education.
- Educational equity may require that per-student spending be different across Ontario. Any funding formula must be sensitive to local needs and circumstances and must allow for the need for local boards to deliver programs that respond to the different needs and circumstances of individual students.

For taxpayers:

- In principle and to the extent that it is feasible, education should be funded from revenue sources based on ability-to-pay.
- The decision to provide education through local school boards should not result in significantly different tax burdens being imposed on taxpayers in different jurisdictions for provincially mandated standards of service.

The level and distribution of education spending

The current system of education finance uses per-student spending as the main determinant the expenditure side of the equalization system. Standardized per-student

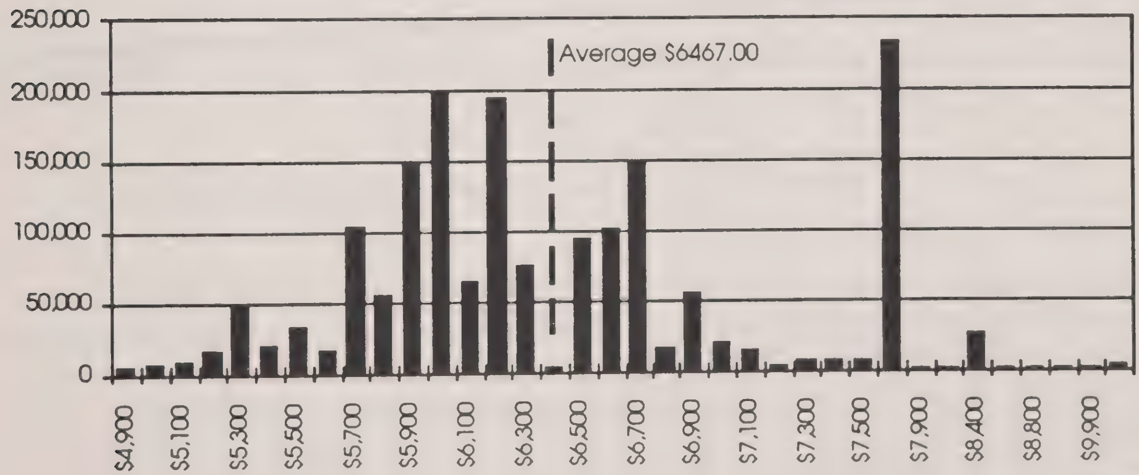
spending amounts for elementary and secondary students are used to generate the recognized expenditure figures for each board.

Three important problems with this system have motivated efforts towards reform. First, the level of spending currently recognized in the education finance model bears little relationship to the costs of providing provincially mandated services as reflected in the spending patterns of school boards. It is generally acknowledged that while there are clearly issues in resource allocation for education in Ontario, the general level of spending recognized by the funding formula is not adequate to meet the equity objectives of the system. Almost all boards spend above the recognized level. In fact, the average level of spending is more than 50% higher than the recognized level. Second, there is substantial variation among boards in the level of spending per-student in the system. Third, the system does not recognize the impact that differences in local conditions, costs and responsibilities have on the costs of meeting equity objectives at the local level. As a result, there is no basis within the system for determining whether spending level differences are justified by differences in local cost conditions.

The following chart illustrates the wide variation in per-student spending in Ontario. In almost all school boards in Ontario, spending per-student exceeds the weighted average recognized level in 1990 of approximately $4,000. There is also substantial variation in the level of spending per student across different school boards.

Chart 22.

DISTRIBUTION OF NET OPERATING SPENDING PER-STUDENT ONTARIO 1990

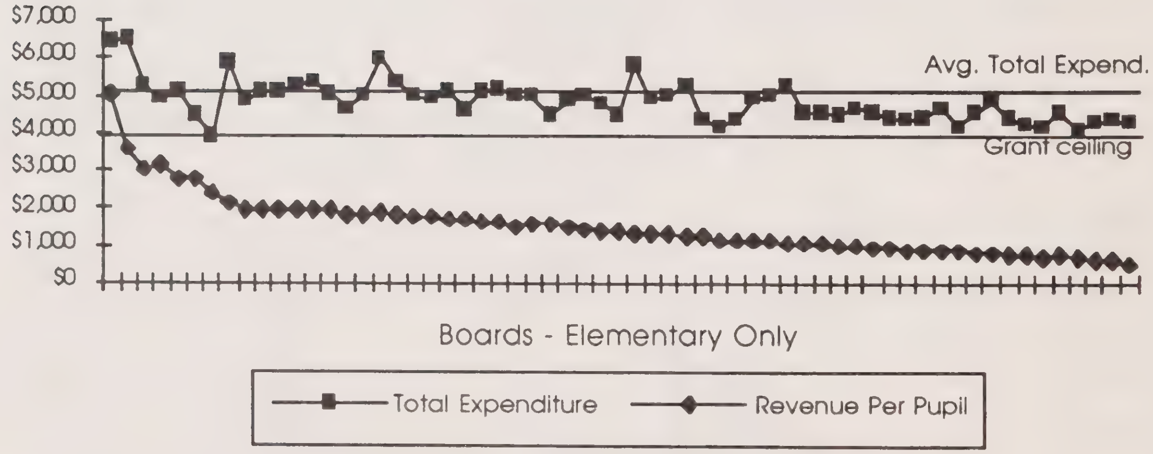


Variations in per-student spending are linked to a number of factors related to community needs and costs. For example, it may cost more to build and operate school buildings in large urban areas than in smaller, rural areas. Differences in the need for boards to provide special education for learning-disabled students or enriched language instruction for an immigrant population will also influence spending needs. However, these needs-driven variations do not explain all of the differences. Data on school spending and locally-raised revenue suggest that there is a relationship between the access of school boards to local revenue sources and their spending levels.

Chart 23 presents per-student figures for both total expenditures and local tax revenue. Boards that raise higher amounts of revenue per-student from local taxes tend to have higher levels of per-student spending; boards with lower amounts of revenue per-student from local taxes tend to have lower levels of per-student spending. The data suggest that differences in access to local resources are impeding the system's ability to deliver on its equity objectives across the province.

Chart 23.

LOCAL REVENUE FROM SCHOOL TAXES AND EXPENDITURE PER STUDENT ONTARIO (1992 PROJECTED)



The local assessment base to which boards have access varies significantly among regions and between types of boards. The Ministry of Education's board wealth index for larger boards reveals that 1990 equalized assessment per student ranges from a low of $48,267 in the Kirkland Lake District Roman Catholic Separate School Board to a high of $433,960 for the Metropolitan Toronto School Board. The variations between types of boards are evident from the fact that for the Kirkland Lake Board of Education, equalized assessment per student is $71,996—about one and a half times that for the corresponding separate board. The equalized per student assessment of the Metropolitan Toronto Board of Education was about three times that of the

Metro Toronto Separate School Board, which had some $154,353 of equalized assessment per student in 1990. [41]

While it is often asserted that differences in the resources available to local school boards can be explained by differences in access to commercial and industrial assessment, data for residential and commercial and industrial assessment separately show that there are substantial variations in both residential and commercial and industrial assessment wealth. Table 5 presents assessment data per-student (elementary and secondary combined) for 122 boards. The data show that while variations in assessment wealth are relatively greater for commercial and industrial assessment, they are also substantial for residential assessment. The board with the highest commercial and industrial assessment per-student has nearly 27 times the assessment per-student of the boards with the lowest commercial and industrial assessment. The highest residential assessment per-student is approximately 7 times the lowest residential assessment per-student.

Chart 23 and Table 5 illustrate two important points concerning education funding in Ontario. First, there appears to be a relationship between the access of school boards to local revenue sources and per-student spending levels. Second, the differences in per-student spending are not nearly as great as would be expected given the differences in the assessment bases that underlie local taxes. Evidently, school boards with weaker assessment bases have been prepared to levy taxes at higher rates in order to keep per-student spending closer to provincial average levels.

41 Figures from Table 5

Table 5[42]

EQUALIZED PER-PUPIL ASSESSMENT, ONTARIO 1990

	Board Name (* Elem. only)	Total p/pupil	Rank	Res. p/pupil	Rank	C & I p/pupil	Rank
1	METRO TORONTO	$433,960	1	$195,691	5	$238,269	2
1	OTTAWA	$414,355	2	$222,474	3	$191,881	3
1	KAPUSKASING	$320,929	3	$81,193	64	$239,736	1
1	YORK COUNTY	$310,886	4	$206,975	4	$103,911	10
1	PEEL	$296,836	5	$170,622	7	$126,214	6
1	HALIBURTON COUNTY	$291,130	6	$260,312	1	$30,817	64
1	MUSKOKA	$276,217	7	$233,078	2	$43,139	53
1	WINDSOR	$250,777	8	$116,278	30	$134,499	4
1	HALTON E	$246,327	9	$169,118	8	$77,209	23
1	HAMILTON	$221,144	10	$104,683	40	$116,461	7
2	OTTAWA	$212,526	11	$148,924	10	$63,602	30
1	WEST PARRY SOUND	$211,819	12	$185,074	6	$26,746	73
1	LAMBTON COUNTY	$206,958	13	$117,695	27	$89,264	13
1	SIMCOE COUNTY	$198,703	14	$140,821	12	$57,882	40
1	WENTWORTH COUNTY	$196,084	15	$144,479	11	$51,605	45
1	WATERLOO COUNTY	$192,328	16	$107,406	37	$84,922	17
1	DURHAM	$189,991	17	$125,137	17	$64,854	29
1	HEARST	$189,061	18	$62,758	88	$126,304	5
1	MIDDLESEX COUNTY	$188,248	19	$134,727	13	$53,521	43
1	PETERBOROUGH COUNTY	$186,134	20	$130,936	15	$55,198	42
1	ESSEX COUNTY	$185,299	21	$122,350	20	$62,949	31
1	TIMMINS	$184,957	22	$74,639	76	$110,318	9
1	OXFORD COUNTY	$184,773	23	$111,684	34	$73,089	25
1	LONDON	$184,440	24	$111,680	35	$72,760	27
1	LINCOLN COUNTY	$183,222	25	$120,840	23	$62,382	33
1	WELLINGTON COUNTY	$183,013	26	$121,930	21	$61,083	34
1	NIAGARA SOUTH	$182,304	27	$100,496	44	$81,808	21
1	STORMNT DNDAS GLN	$180,441	28	$95,955	47	$84,486	18
1	LAKEHEAD	$180,439	29	$88,313	54	$92,126	12
1	FRONTENAC COUNTY	$180,396	30	$121,689	22	$58,707	38
1	HALDIMAND COUNTY	$176,844	31	$103,800	41	$73,044	26
1	CARLETON	$176,760	32	$131,013	14	$45,748	50
1	KENT COUNTY	$173,780	33	$105,880	39	$67,901	28
1	MICHIPICOTEN	$169,645	34	$57,909	93	$111,736	8
1	SUDBURY	$166,207	35	$77,303	72	$88,904	14
1	LEEDS GRENVILLE	$165,962	36	$103,443	42	$62,519	32
1	NORFOLK	$165,877	37	$124,487	18	$41,390	54

42 Pupil counts based on total enrolment (elementary + secondary). 1 denotes public school board. 2 denotes separate school board.

	Board Name	Total p/pupil	Rank	Res. p/pupil	Rank	C & I p/pupil	Rank
1	SAULT STE MARIE	$164,354	38	$76,365	73	$87,989	16
2	HALDIMAND NORFOLK	$162,581	39	$149,520	9	$13,062	103
1	PERTH COUNTY	$161,985	40	$108,739	36	$53,246	44
1	KENORA	$161,910	41	$78,721	70	$83,189	19
1	BRANT COUNTY	$158,403	42	$98,392	46	$60,012	37
1	GREY COUNTY	$157,581	43	$117,704	26	$39,877	56
1	NORTHUMBERLAND	$154,472	44	$116,070	31	$38,402	58
1	VICTORIA COUNTY	$154,403	45	$128,626	16	$25,777	76
2	METRO TORONTO	$154,353	46	$117,313	28	$37,041	59
1	DUFFERIN COUNTY	$153,944	47	$123,581	19	$30,363	65
1	EAST PARRY SOUND	$146,646	48	$119,976	24	$26,670	74
1	RENFREW COUNTY	$146,162	49	$89,428	50	$56,734	41
1	NIPIGON RED ROCK	$145,990	50	$43,513	114	$102,477	11
1	ELGIN COUNTY	$145,883	51	$94,715	48	$51,168	47
2	YORK REGION	$144,239	52	$116,808	29	$27,432	71
1	PRINCE EDWARD	$140,794	53	$119,604	25	$21,190	79
1	HURON COUNTY	$139,747	54	$112,237	33	$27,510	70
1	HASTINGS COUNTY	$137,047	55	$88,435	51	$48,612	48
1	BRUCE COUNTY	$132,616	56	$113,630	32	$18,987	84
1	DRYDEN	$132,525	57	$44,239	112	$88,286	15
1	COCHRANE IROQUOIS	$131,357	58	$48,819	104	$82,538	20
1	NIPISSING	$130,171	59	$69,848	81	$60,323	36
1	LANARK COUNTY	$129,533	60	$92,728	49	$36,805	60
1	LENNOX ADDINGTON	$124,737	61	$88,185	55	$36,552	61
1	MANITOULIN	$122,960	62	$106,841	38	$16,119	94
1	LAKE SUPERIOR	$120,647	63	$40,959	117	$79,688	22
1	PRESCOTT RUSSELL	$118,102	64	$79,661	69	$38,442	57
1	TIMISKAMING	$115,471	65	$54,401	97	$61,069	35
1	ESPANOLA	$115,310	66	$39,109	119	$76,202	24
2	HALTON	$114,499	67	$100,556	43	$13,942	100
2	OTT./CARL. FRENCH	$110,241	68	$98,514	45	$11,728	106
2	HAMILTON WENTWORTH	$108,009	69	$88,385	52	$19,624	82
2	LAKEHEAD DISTRICT	$106,468	70	$65,953	84	$40,515	55
1	NORTH SHORE	$106,443	71	$48,474	105	$57,969	39
2	LINCOLN COUNTY	$105,096	72	$86,875	59	$18,221	86
2	WELLAND COUNTY	$105,004	73	$74,926	75	$30,078	66
2	WELLINGTON COUNTY	$104,839	74	$87,900	57	$16,939	89
2	DUFFERIN PEEL	$103,658	75	$87,465	58	$16,193	92
1	FORT FRANCES RR	$100,612	76	$49,045	103	$51,567	46
2	HURON PERTH COUNTY	$98,402	77	$88,362	53	$10,039	114
2	CARLETON	$98,130	78	$84,069	61	$14,061	99
1	RED LAKE	$97,921	79	$50,163	101	$47,757	49
2	* NORTH OF SUPERIOR	$97,429	80	$63,842	87	$33,587	63

	Board Name	Total p/pupil	Rank	Res. p/pupil	Rank	C & I p/pupil	Rank
1	OTT./CARL. FRENCH	$97,382	81	$88,035	56	$9,347	118
1	CENTRAL ALGOMA	$97,251	82	$85,763	60	$11,487	109
2	WATERLOO COUNTY	$97,176	83	$77,840	71	$19,336	83
2	LONDON MIDDLESEX	$95,483	84	$79,717	68	$15,766	95
2	WINDSOR	$95,276	85	$74,278	77	$20,998	80
2	KENT COUNTY	$94,899	86	$81,899	62	$13,001	104
1	ATIKOKAN	$91,108	87	$47,102	108	$44,007	52
2	ELGIN COUNTY	$90,631	88	$81,316	63	$9,314	119
2	ESSEX COUNTY	$90,384	89	$80,835	65	$9,549	117
1	HORNEPAYNE	$90,185	90	$56,355	95	$33,830	62
2	SIMCOE COUNTY	$89,966	91	$80,811	66	$9,155	120
2	DURHAM REGION	$89,923	92	$79,915	67	$10,008	115
2	FRNTNAC LNNX ADNG	$89,251	93	$75,687	74	$13,564	102
2	SAULT STE MARIE	$84,806	94	$64,242	85	$20,564	81
2	BRANT COUNTY	$83,557	95	$70,610	80	$12,947	105
2	LAMBTON COUNTY	$82,889	96	$71,908	78	$10,981	110
2	PRESCOTT RUSSELL	$82,185	97	$66,002	83	$16,182	93
1	GERALDTON	$80,585	98	$35,685	121	$44,899	51
2	BRUCE GREY COUNTY	$80,571	99	$70,991	79	$9,580	116
2	PETERBORO VICTORIA	$78,454	100	$69,302	82	$9,152	121
2	KAPUSKASING DISTRICT	$77,808	101	$48,276	106	$29,532	68
2	* GERALDTON DISTRICT	$77,625	102	$50,553	100	$27,071	72
2	* DRYDEN DISTRICT	$77,288	103	$49,427	102	$27,862	69
2	SUDBURY DISTRICT	$76,177	104	$58,082	92	$18,095	87
2	TIMMINS DISTRICT	$74,712	105	$53,373	98	$21,339	78
2	STORMNT DUNDAS GLN	$74,443	106	$57,743	94	$16,700	90
2	OXFORD COUNTY	$74,318	107	$64,019	86	$10,298	113
1	KIRKLAND LAKE	$71,996	108	$42,313	115	$29,683	67
2	HASTINGS PRINCE ED	$71,890	109	$60,224	90	$11,666	107
2	RENFREW COUNTY	$71,714	110	$60,211	91	$11,502	108
2	LANARK LEEDS GRNVLE	$71,633	111	$61,291	89	$10,341	112
2	HEARST DISTRICT	$70,102	112	$43,685	113	$26,418	75
2	* NORTH SHORE DIST.	$69,827	113	$56,253	96	$13,575	101
2	NIPISSING DISTRICT	$67,271	114	$53,050	99	$14,220	98
2	* MICHIPICOTEN DIS.	$66,375	115	$47,959	107	$18,415	85
1	CHAPLEAU	$63,937	116	$39,218	118	$24,719	77
2	KENORA DISTRICT	$61,028	117	$44,605	111	$16,423	91
2	* FORT FRANCES	$60,467	118	$44,908	110	$15,559	96
2	TIMISKAMING DISTRICT	$59,182	119	$41,664	116	$17,519	88
2	* CHAPLEAU PANET	$55,516	120	$46,636	109	$8,880	122
2	COCHRANE IROQ FALLS	$48,538	121	$34,240	122	$14,298	97
2	* KIRKLAND LAKE DIST.	$48,267	122	$37,726	120	$10,542	111
	AVERAGE	$205,413		$124,499		$80,914	

Education funding and taxpayer equity

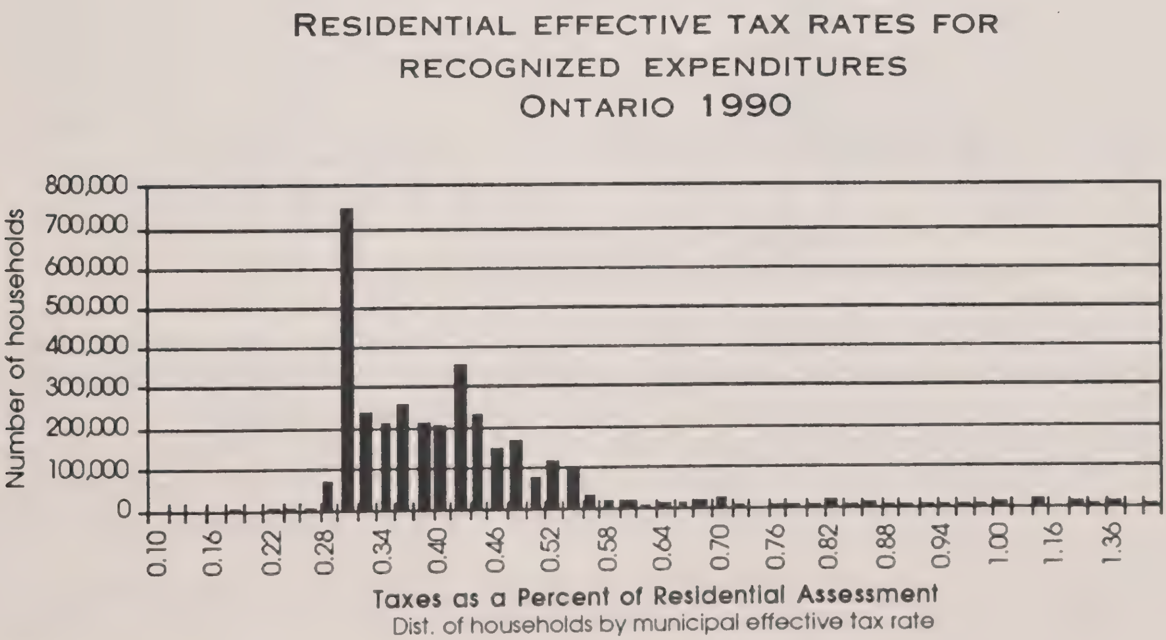
Over 60% of per-student spending on education is funded from property taxes, which the working group has found bear no systematic relationship to ability-to-pay. The working group has concluded that services which have income redistributive or broad social policy goals (such as ed.) should be funded for taxes related to ability-to-pay where feasible.

Given an objective of providing for equity across the province through the expenditure funding model for education, the key question on the revenue side is how the property taxes required to support that goal should be distributed among residential taxpayers across Ontario and among commercial and industrial taxpayers. The distinction is important, both because residential and commercial/industrial properties are recognized as separate classes of property in the current property tax system and because different approaches to the evaluation of fairness apply to each.

The effective rate of tax on residential property for recognized education expenditures – a level of services that is supposed to be standard across Ontario – varies dramatically from municipality to municipality. The following chart shows the distribution of effective tax rates for recognized spending in Ontario, calculated at the municipal level. Effective tax rates at the municipal level were weighted by the number of households in the municipality to provide a picture of the impact on households across the province.

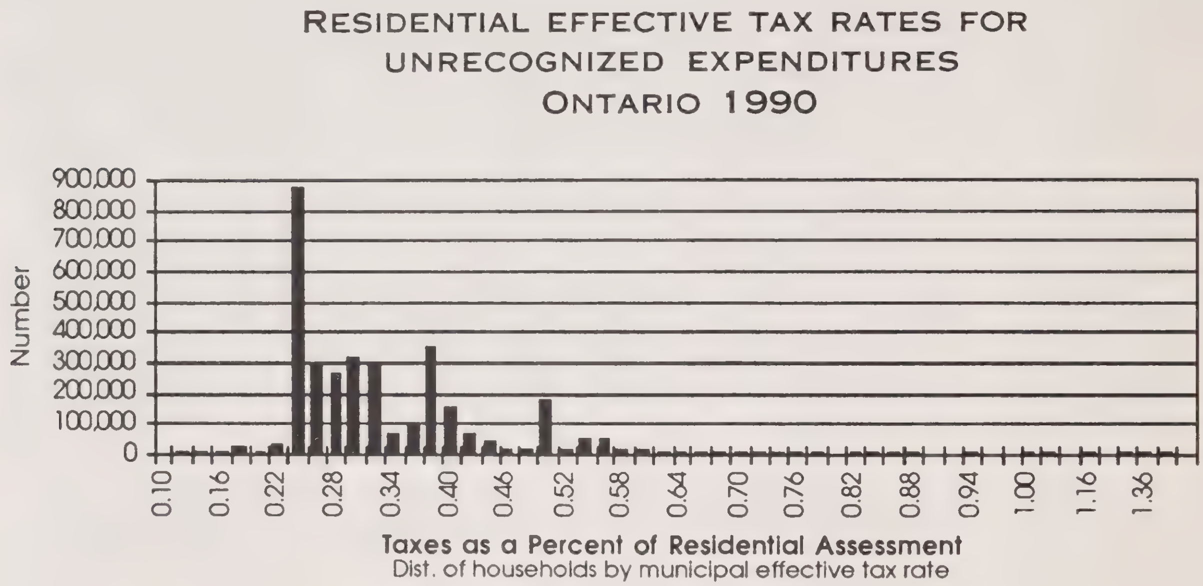
Chart 24 reveals substantial variation in effective tax rates on residential properties for recognized educational spending in Ontario. Given that the equalization system is supposedly designed to equalize tax burdens for recognized spending, the extent of the variation at the local level is noteworthy.

Chart 24.



Effective rates of tax on residential property for education expenditures should vary. After all, there is no attempt made in the grants system to equalize these above the recognized level of expenditure. The wide variation in effective tax rates is partly explained by the problems with the assessment system noted earlier in this report. The variation in effective tax rates for expenditures that are theoretically equalized to produce effective tax rate uniformity is almost as great as the variation in effective tax rates for expenditures for which there is no attempt to equalize at all.

Chart 25.

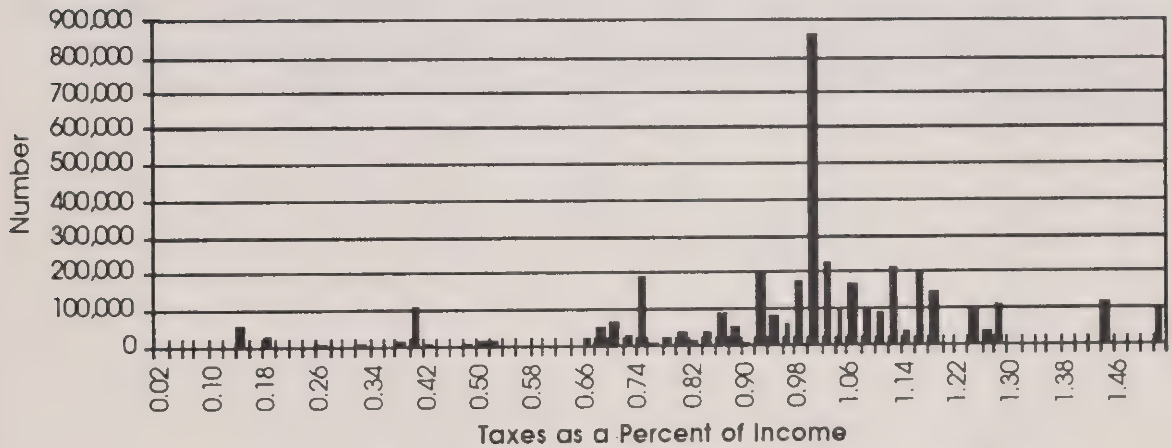


From the working group's analysis of fairness the working group concluded that fairness would be enhanced if services such as education were funded from taxes better related to ability-to-pay than the property tax. An analysis of the relationship between education taxes and average household incomes at both the municipal and school board levels shows substantial variation.

The following chart shows how the household income impact of residential property taxes to support recognized spending varies across Ontario. For each board in Ontario, total residential tax to support recognized spending is determined and expressed as a percentage of total income at the household level in the board area. This provides a community fairness index of property taxes to support provincially recognized spending on education. To provide a more representative picture of the impact on taxpayers, the board-level household income impact is weighted by the number of households in the board area. As the chart shows, there is a substantial degree of variation in the average household income impact of residential taxes for recognized spending across Ontario. Data are for the calender year 1990.

Chart 26.

HOUSEHOLD INCOME IMPACT OF RESIDENTIAL SCHOOL TAXES FOR RECOGNIZED EDUCATION EXPENDITURES, ONTARIO 1990



Dist. of households by percentage impact of tax in Board area

There are significant variations in the percentage of household income required for residential taxes to support recognized spending levels, which are theoretically equalized to produce similar taxpayer impacts. The average percentage of household income required for residential taxes to support recognized spending in Ontario was 1.0%. Substantial numbers of households are located in municipalities in which this percentage is either less than half, or more than double this amount.

The corresponding household income impact data for residential taxes to support local spending on education above recognized levels appear in the following chart.

Chart 27.

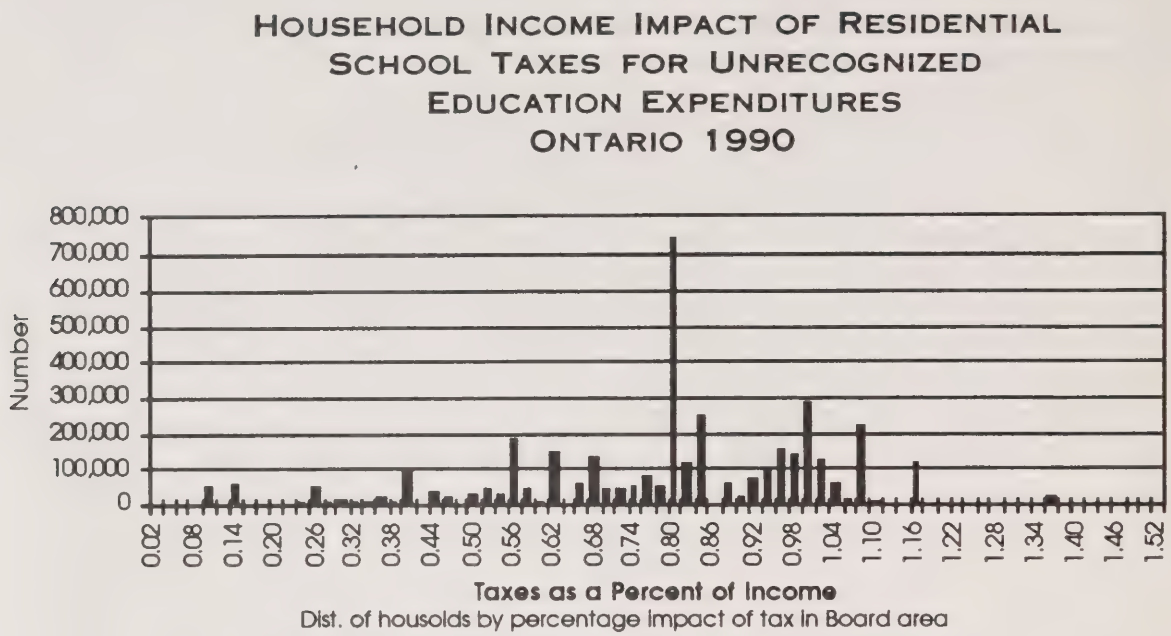


Table 6 shows the data for average household income impacts in the school boards that cover the 31 municipal areas for which data were presented on assessment and effective tax rates earlier in this report. In this sample, the impact of taxes to support recognized spending ranged from 0.72% in the Welland RCSS Board to 1.54% in the Peel Board. The impact of residential taxes to support total spending ranges from a low of 1.20% in the Lakehead Dist. RCSS Board to a high of 3.31% in the York Region RCSS Board.

Table 6.
HOUSEHOLD INCOME IMPACT OF RESIDENTIAL TAXES FOR EDUCATION
31 selected communities

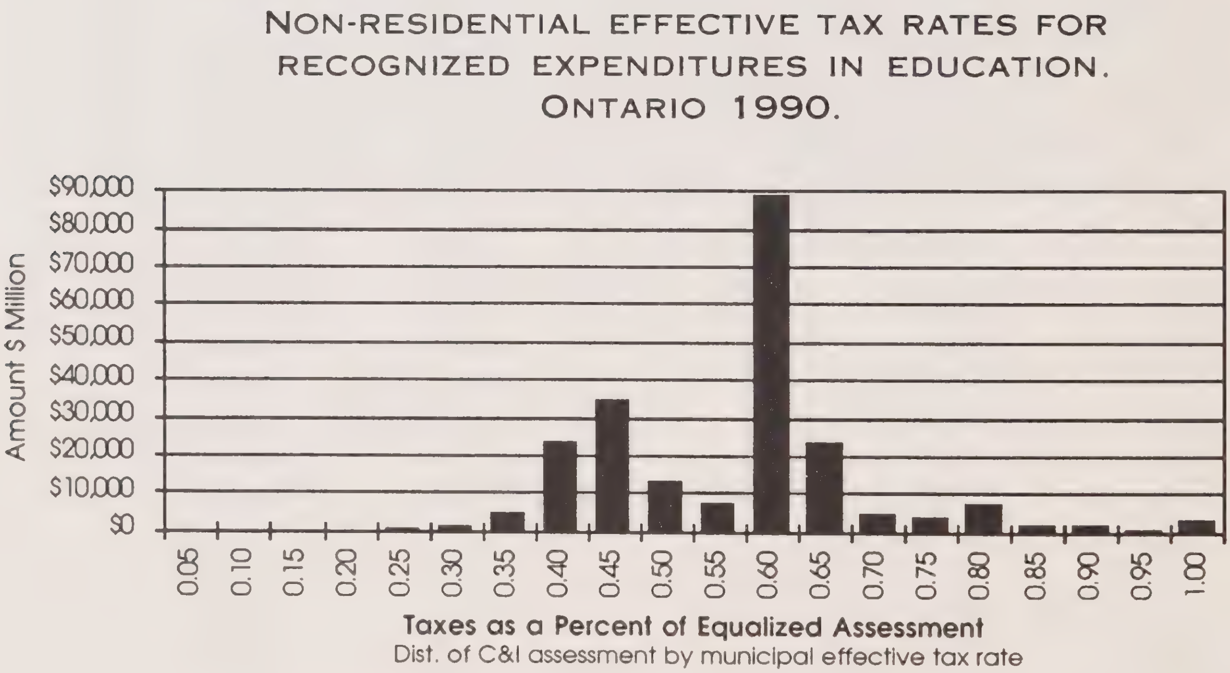
Public = 1 Separate = 2	Board	Household income impact Education spending Recognized	 Unrecognized
	AVERAGE	**1.01%**	**0.81%**
1	Ottawa-Carleton French B of E	1.12%	0.94%
1	Carleton B of E	1.06%	1.15%
1	Ottawa B of E	0.96%	0.98%
2	Carelton RCSS B	1.04%	1.36%
2	Ottawa RCSS B	1.16%	0.94%
2	Ottawa-Carleton RCSS B	1.09%	1.63%
1	Lakehead B of E	0.84%	0.52%
2	Lakehead Dist. RCSS B	0.76%	0.44%
1	Sault Ste. Marie B of E	1.11%	0.75%
2	Sault Ste. Marie Dist. RCSS B	1.01%	0.90%
1	Windsor B of E	1.02%	0.69%
2	Windsor RCSS B	0.94%	0.91%
1	Middlesex County B of E	1.25%	0.65%
2	London Middlesex RCSS B	0.92%	0.86%
1	London B of E	0.91%	0.82%
1	Wellington County B of E	1.23%	0.94%
2	Wellington County RCSS B	1.18%	1.78%
1	Lincoln County B of E	1.10%	0.67%
1	Niagara South B of E	0.97%	0.67%
2	Lincoln County RCSS B	1.03%	0.68%
2	Welland County RCSS B	0.72%	0.74%
1	Wentworth County B of E	1.12%	0.97%
2	Hamilton-Wentworth RCSS B	0.94%	1.15%
1	Hamilton B of E	0.99%	0.99%
1	Halton B of E	1.27%	0.82%
2	Halton RCSS B	1.26%	1.06%
1	Peel B of E	1.54%	1.08%
2	Dufferin-Peel RCSS B	1.52%	1.54%
1	Simcoe County B of E	1.17%	0.83%
2	Simcoe County RCSS B	1.08%	1.04%
2	Metro Toronto RCSS B	1.16%	0.99%
1	Metro Toronto B of E	0.98%	0.78%
1	Durham B of E	1.11%	0.92%
2	Durham Region RCSS B	1.07%	1.07%
1	York County B of E	1.44%	1.01%
2	York Region RCSS B	1.52%	1.80%
1	Peterborough County B of E	1.09%	0.71%
2	Peterborough, Victoria & Northumberland RCSS B	1.04%	1.09%

Both the effective tax rate on equalized residential assessment and the household income impact of education taxes vary substantially across the province. Even on its own terms, the current system fails to achieve equity for taxpayers. Moreover, the working group concludes that the ability-to-pay of the community as reflected by household incomes in the community is a better indicator of the community's capacity to pay taxes locally. The working group therefore concludes that the objective of the education grants system should be to equalize the household income impact of residential taxes to support spending for provincially mandated services.

Commercial and industrial taxpayers

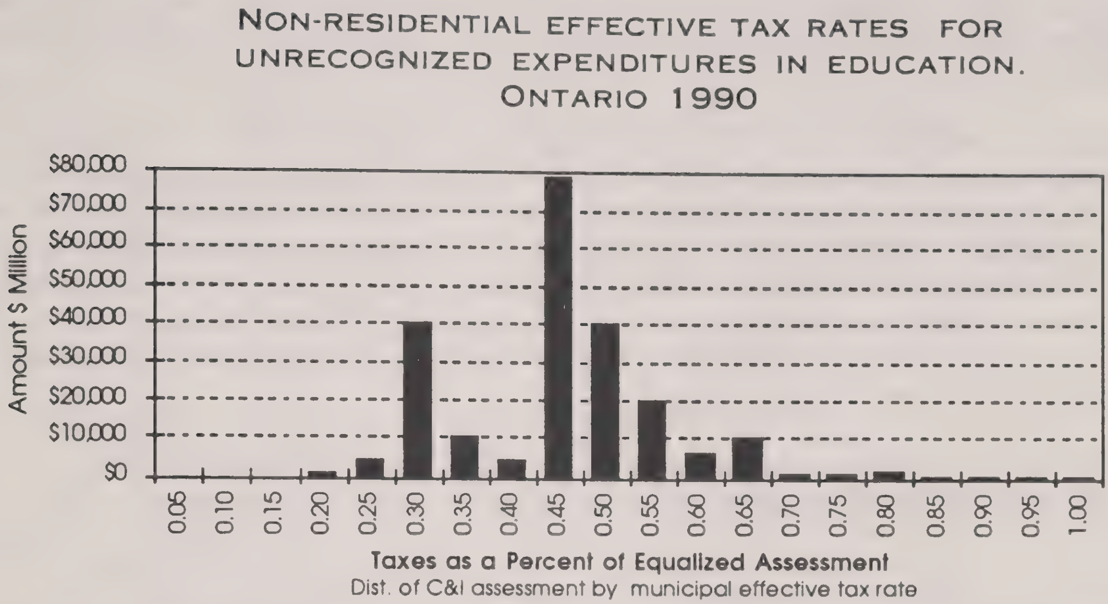
The effective rate of tax on commercial and industrial property for recognized per-student spending levels is subject to variations at least as great as those for residential effective tax rates. The chart shows the distribution of effective tax rates for recognized expenditures for commercial and industrial property weighted by commercial and industrial assessment to provide a picture of how commercial and industrial taxpayers as a group are affected.

Chart 28



The corresponding chart for spending above the recognized level appears below. It shows the effective rate of tax on commercial and industrial property at the municipal level for above-recognized-level spending. The resulting distribution is weighted by equalized commercial and industrial assessment to provide a picture of the impact on commercial and industrial property generally.

Chart 29



The equalization system should be designed to produce the same effective rate of tax on commercial and industrial property across Ontario for provincially mandated standards of service in education.

Pooling of assessment

Perhaps the most divisive issue in education funding over the past 20 years has concerned the pooling of assessment for education tax purposes. While there has been general agreement that residential taxes for education should remain at the local level, the issue of how commercial and industrial taxes should be dealt with remains an important area of disagreement in Ontario. A majority of the working group concluded that pooling of commercial and industrial assessment would not be appropriate.[43]

Pooling of commercial and industrial assessment would effectively result in commercial and industrial tax revenues being distributed among boards on a formula basis rather than on the basis of local commercial and industrial assessment.

The issue of pooling of commercial and industrial assessment is not an issue of funding adequacy for education. Ontario's funding model for education should recognize a level of spending sufficient to meet the equity objectives of the system and to enable school boards to provide for provincially mandated standards of service. It should also be designed to ensure that the local taxpayer costs of providing those services are distributed fairly across Ontario. Recognized funding levels must be sufficient to enable every school board in Ontario to provide mandated services while

43 The views of other members of the working group on this issue are expressed in a minority report included with this working group report as Appendix A.

imposing a fair impact on local taxpayers. Given this objective the funding available to provide mandated services should be independent of the local assessment base. To the extent that the system does not provide sufficient resources to provide mandated services, the level of spending recognized for equalization purposes should be increased.

Pooling of assessment for provincially mandated services will have an impact on the total resource base for education only to the extent that pooled local taxes are used as a substitute for grants generated from provincial revenue sources. The implication of the working group's general view of the appropriateness of property taxes as a source of funding for education is that funding from provincial sources should be increased rather than reduced. Consequently, there is no equitable purpose served by pooling assessment to support those mandated services that are recognized for equalization funding purposes.

The fundamental issue in pooling of commercial and industrial assessment to support mandated services has to do with the role of local government in the delivery of education in Ontario. The working group believes that the overall objectives of the education system in Ontario are best served by a continuation of the current system of shared responsibility for education between local governments and the provincial government. In the working group's view, this system offers the best prospect for finding an appropriate balance between the need to meet overall student equity objectives and the need to ensure that the education system responds adequately and effectively to local conditions.

School boards cannot function effectively as institutions of local government without clear lines of accountability to the local taxpayers that support them. Commercial and industrial assessment pooling would undermine that accountability.

Pooling of assessment to support services above provincially mandated levels raises both equity and governance issues. From an equity perspective, it is evident from the equalized assessment per-student data presented above that there are significant differences among boards in their ability to raise funds locally to support spending above those levels recognized in any funding formula for equalization. These differences exist in both the residential and the commercial and industrial sector.[44]

The local governance issues associated with pooling for locally determined spending are, if anything, more serious than they are for province-wide pooling to support

44 In the current system, separate school boards do not have equal access to the commercial and industrial tax base. Changes currently being phased in will increase the size of the commercial and industrial tax base accessed by separate school boards. However , it will not fully equalize that access within the grant ceiling for recognized expenditures. In the system that is being phased in, the commercial and industrial tax base represented by publicly-traded corporations will be allocated to school boards in proportion to their residential assessment bases within the grant ceiling for recognized expenditures. Whatever inequities exist in the residential sector will continue to be reflected in the revised commercial and industrial base. Furthermore, the new approach applies only to properties owned by publicly-traded corporations. Other commercial and industrial property will continue to be allocated to boards on the basis of designated school support.

provincially mandated programs. At least with province-wide pooling, the same government is making the taxing and spending decisions. With pooling for locally determined spending, one local jurisdiction ends up raising revenue that is spent in another jurisdiction on programs that are discretionary at the local level. This goes against the traditional democratic notion that those who are responsible for spending should be responsible for the taxes to support that spending.

The working group concluded therefore that the major questions of student equity across Ontario should be dealt with by improving the funding formula for provincially mandated services and not through pooling of commercial and industrial assessment. In the working group's view, whatever equity benefits might be achieved through pooling are outweighed by its negative impacts on local governance and accountability in education.

RECOMMENDATION #35 – EDUCATION FUNDING

- **That funding for education be a shared responsibility between the provincial government and local school boards.**
- **That the provincial government either increase its share of education funding in order to provide greater equity in the funding of education for both students and taxpayers or re-evaluate the number of mandated programs, recognizing that some programs may be added and some deleted.**
- **That the equalization formula in the education grant program be based on average household income for residential ratepayers and on total assessment for commercial and industrial ratepayers within the local education jurisdiction.**
- **That a representative technical transition team of stakeholders be established with a mandate to:**

  prepare and coordinate impact studies on the revenue changes proposed above;

  identify factors that reflect expenditure needs including differences resulting from demographics, immigration, population density, regional cost differences and other factors for inclusion in a funding formula; and

  develop strategies for the implementation of revenue and expenditure reform for education finance.

VII. LOCAL GOVERNMENT INSTITUTIONS

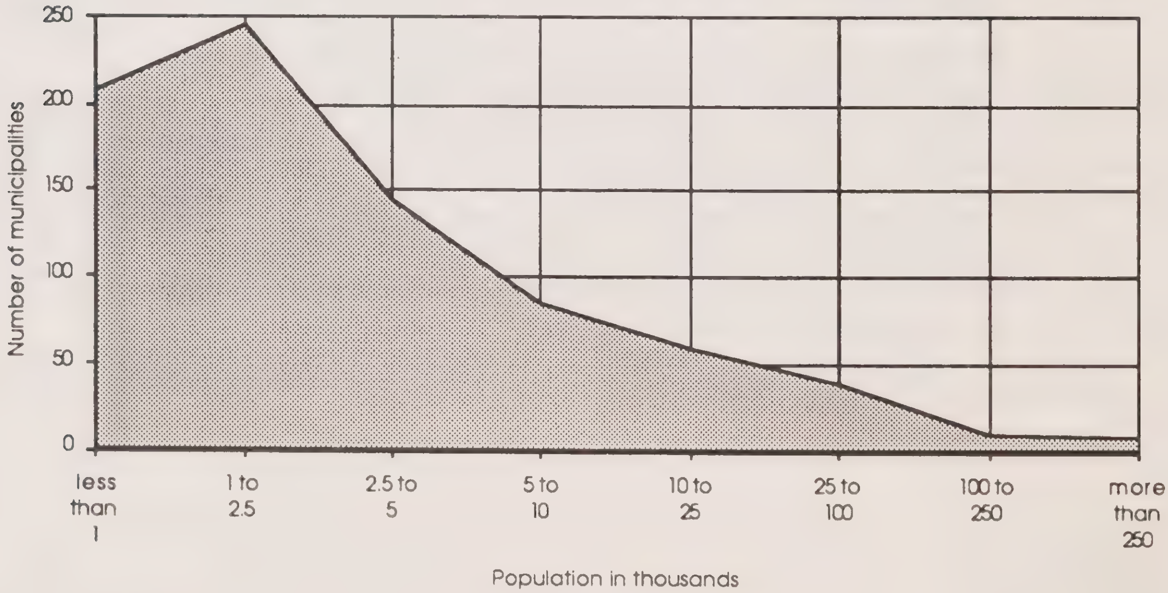
Current Institutional structures

At the end of 1991, there were 832 municipalities and 172 school boards in Ontario serving a population of nearly 10 million people. Municipalities vary significantly in population, responsibilities, administrative resources and ability to raise revenue. There are substantially fewer school boards than municipalities, but even so there are significant differences in the population served and the capacity to raise revenue among the boards.

Ontario's municipal sector is characterized by many very small, sparsely populated municipalities and a few very large municipalities, with the vast majority of the population concentrated in the area surrounding Metro Toronto. Almost 75% of all lower-tier (local) municipalities in Ontario have a population of fewer than 5,000 people and only 2% have populations of more than 100,000. From another perspective, 80% of Ontario households are found in 15% of all lower-tier municipalities. This distribution of population has advantages and disadvantages. While the provision and financing of services is facilitated in urban areas, access to quality services in smaller jurisdictions is more difficult to ensure.

Chart 30.

DISTRIBUTION OF LOWER-TIER MUNICIPALITIES BY SIZE.
ONTARIO 1990



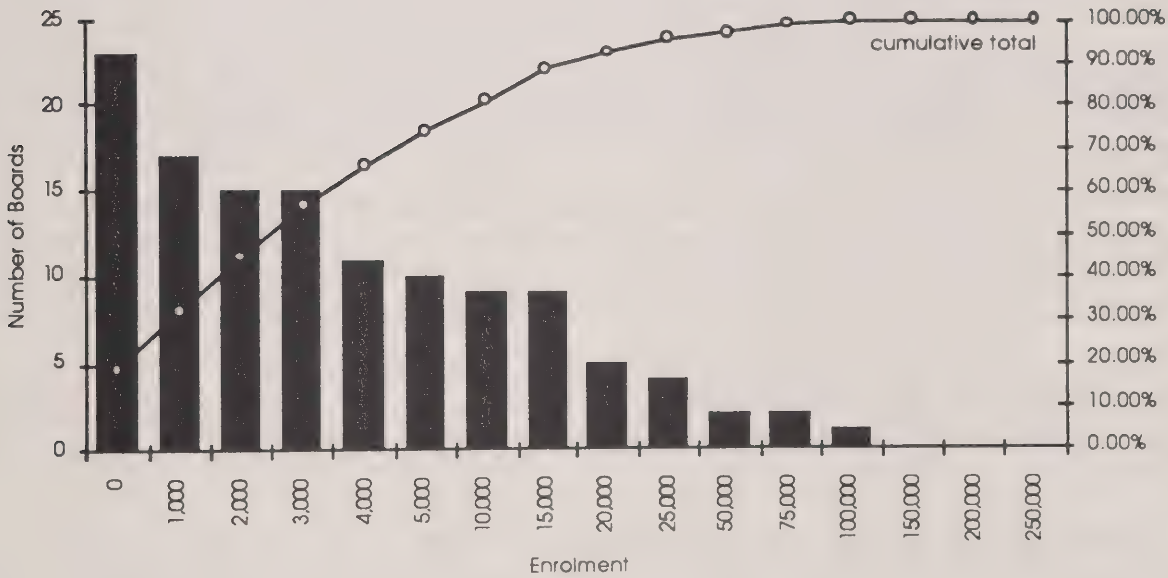
All municipalities are bound by provincial statute. The doctrine of "express authority"[45] governs all aspects of municipal finance. Both the spending powers and the powers relevant to the raising of revenues are set in statute. The provincial government has the option of permitting degrees of local autonomy by framing municipal legislation broadly or narrowly as circumstances warrant.

As a result of the massive reform in education organization and governance that took place in the 1960s, the number of school boards in Ontario is substantially smaller than the number of municipalities. The 172 school boards in Ontario are serving public, separate, English and French communities.

The education system provides instruction to approximately 1.8 million students in nearly 5,000 schools involving approximately 120,000 teachers. As chart 33, shows a substantial proportion of boards serve relatively small student populations. Sixty-nine of the 122 larger boards represented in the table have enrolments of 3,000 or less.

Chart 31.

DISTRIBUTION OF SCHOOL BOARDS BY TOTAL ENROLMENT.
ONTARIO 1990



---

45 The doctrine has been defined as follows: a municipality may exercise only those powers expressly conferred by statute, those powers necessarily or fairly implied by the expressed power in the statute, and those indispensable powers essential and not merely convenient to the effectuation of the purposes of the corporation. S.M. Makuch, Canadian Municipal and Planning Law, (Toronto, The Carswell Co. Ltd., 1983), p.115.

Elementary and secondary school boards share the responsibility for education with the provincial government. Public and separate boards exist throughout the province and in some areas French-language boards have also been established. The mandate of boards is set out in statute covering both "shall" and "may" types of duties. Many of the latter appear to be similar to service responsibilities of other agencies as school boards have taken a more holistic approach to the learner, recognizing, for example, the relationship between health and nutrition and learning.

Marked differences in the geography of the province combined with different patterns of economic development have radically changed the environment for local government in Ontario. Differences in resource endowments, access to transportation and markets and balanced development versus single industry dependence are reflected in a variety of different municipal structures to deliver services of a "local nature" as well as those mandated by the provincial government. Since World War II and particularly during the last two decades, urbanization has forced fundamental structural changes in municipal organization, although not on the same scale as for school boards.

Where population density has warranted the establishment of municipal structures, at least one level of local government exists. For example, in Northern Ontario, with the exception of Sudbury, single-tier municipalities provide local services. Across southern Ontario, two levels exist with the exception of some 23 "separated cities and towns" which are not part of any upper-tier municipal structure. Rural areas in the south are organized in the county system while urban areas are organized in the regional system. The two-tier structure used to reorganize the municipalities in Metro Toronto in 1954 became the model for the reorganization of municipalities elsewhere during the 1970s. The reorganization was a response to pressures to create entities fiscally strong enough to finance the costs associated with rapid urban growth and large enough to enable services to be planned effectively and delivered efficiently. This type of structure has also been established in the District of Muskoka, the Region of Sudbury and the Restructured County of Oxford.

Regions, counties and Metropolitan Toronto are described as upper tier governments while their constituent municipalities are generally known as lower-tier or area municipalities. However, not all upper-tier municipalities have the same powers.

Regional councils have considerable authority in such areas as policing, health services, social services, solid waste disposal, capital borrowing, and sewer and water treatment. Lower-tier municipalities tend to have responsibility for fire protection, recreation, municipal hydro services, public transit (except in Metro Toronto and Ottawa-Carleton), tax collection, libraries and licensing. Both levels share responsibility for such services as roads, planning, sewer and water services, and economic development.

The county structure has existed in Ontario since 1849. The powers potentially available to county governments are somewhat more limited than those of regions; those powers that counties normally exercise are substantially more limited. County

councils have responsibility for county roads, homes for the aged, and welfare. Counties also have authority to provide policing, public utilities, parking, sewer and water services and transit (although no county does). In some counties, General Welfare Assistance is administered by the lower-tiers. All other municipal services are provided by the lower-tier. As noted above, separated cities also exist within county boundaries.

Other agencies and boards provide certain local services and draw upon the local tax base for partial funding. These include Childrens' Aid Societies, District Social Service and Homes for the Aged Boards in the North, and Conservation Authorities in southern Ontario.

Institutional issues

Differences in local government structures and their fields of authority are not always considered in discussions primarily concerned with the revenue base. The complexity of structures and differences in the size and sophistication of local government suggest that the local government sector should not be treated as a homogeneous entity. The relationship between the provincial government and the local government sector is also very complex. The provincial government relies on the local government to deliver many programs and also makes extensive use of the grants system to influence local spending priorities. Concerns about duplication of services and lack of accountability have given rise to recent reviews of the provincial/local program relationship. The Provincial/Local Relationship Review is addressing municipal issues. The Education Finance Reform project is addressing funding issues facing elementary and secondary education in Ontario.

There are two basic premises of the provincial/municipal relationship review (or disentanglement). Where possible, areas of overlap in responsibility between the provincial government and the municipal sector should be eliminated. The provincial government should be responsible for programs that have income redistributive objectives and/or generate "spillover" costs and benefits for the whole province. The translation of these premises into concrete proposals for reform is currently the subject of negotiations between the Association of Municipalities of Ontario and the provincial government as represented by a committee of ministers chaired by Minister of Municipal Affairs. These negotiations may result in a realignment of responsibilities between municipalities and the provincial government. However, the Hopcroft Report worked from similar premises and produced proposals that would have had the provincial government assume full funding responsibility for social and health services, with local government assuming full financial responsibility for local "hard" services such as roads.

The goal of the Education Finance Reform project is to develop a system that measures needs for financial resources and provides for fiscal equalization. Its basic premise is that the current system is not effectively meeting the needs of students. The focus is on developing a model which will provide for full funding of a target level of service. The target level of service would be one which is sufficient to achieve the province's objectives for elementary and secondary education as op-

posed to the current system which is geared towards a basic "recognized" level of expenditure.

The goal of our system of local government is not simply to deliver services mandated by the provincial government in an efficient manner. In our system of local government, we attach a value to the accountability, accessibility and sensitivity to the community that local governments provide. That value must sometimes be weighed against the centralizing implications of efforts to improve service quality and access on a uniform basis across the province. Making local government more effective is an important public policy goal that has led provincial governments to reorganize the structure of local government at both the municipal and school board levels and to address such problems in the functioning of local democracy as conflict of interest and campaign financing.

Historically, local governments have been the driving force behind advances in the level and quality of many public services. The accessibility of local government often makes it the starting point for new programs and new approaches to solving public policy problems which are then picked up by other levels of government. Problems from poverty, housing and public health to transportation tend to be most visible at the local level. And the core services provided through local government—street sweeping, policing, recreation centres, health clinics, schools—are the most visible of all public services and form part of the fabric of local neighbourhoods.

The answer to the Treasurer's question concerning the capacity of the current property tax system to meet the revenue requirements of local governments and school boards depends on how the roles and responsibilities of those bodies are defined.

The basis on which roles and responsibilities are defined will inevitably be different for school boards and for municipalities. Municipalities and the provincial government have adopted as a goal the disentanglement of the provincial-municipal relationship in the interests of efficiency and accountability in service delivery. Education, by virtue of the substantial shared interests and contributions of local and provincial governments, is an "entangled relationship". The provincial government has the constitutional responsibility to provide education. The local municipality raises tax dollars. The school board delivers the service. These roles must, in turn, be linked to financial responsibility.

In establishing a more rational basis for allocating responsibilities between levels of government, the need to accommodate local priorities and local differences must be weighed against the provincial responsibility for equitable distribution, availability and access to services, and the need for province-wide standards.

RECOMMENDATION #36 – PROVINCIAL AND LOCAL RESPONSIBILITIES

The provincial government must provide for full funding of those services it mandates. Where service is mandatory but delivery is delegated, the provincial government must have the authority to determine standards and equity objectives for services that apply throughout Ontario for the benefit of all people in the province and the responsibility to ensure:

- **that every person has equal access to services that meet the required standards and fulfil equity objectives; and**
- **that local government has available to it adequate funding to meet those standards and fulfill those objectives.**

Appropriate revenue sources for local governments

Apart from customs and excise duties, the property tax is the oldest tax in Ontario, dating back to 1793. Historically, the property tax was a voluntary levy imposed on members of a community. It was a kind of subscription or membership fee and it could be distinguished from other kinds of subscriptions (for example, subscriptions to fund the building of local schools) in that it applied to all the relevant members of the local community. It was also distinguished from other kinds of taxes because the services funded from the fee were enjoyed locally. Local taxes paid for local courts and roads, asylums and schools, police and sewers. The property tax has remained almost entirely a local source of revenue.

The working group believes that property tax policy should reflect community decision-making. At the same time, however, local revenue policy must recognize the broader provincial interest in ensuring that all residents of Ontario have access to adequate local services at reasonable cost. There is an inevitable tension between local autonomy and accountability and the need to ensure that key services of provincial interest meet accepted standards or achieve equity objectives. That tension raises one of two key issues at the heart of the debate over local revenue reform in Ontario.

The other key issue concerns tax fairness. The working group has reached two important conclusions that bear directly on this issue. First, at the household level, there is virtually no relationship between the property tax and ability-to-pay. Second, certain services—including education and welfare—are appropriately funded from revenue sources better related to ability-to-pay than the property tax.

There are three broad approaches that can be taken to achieving our service equity and tax fairness objectives. One is to broaden the revenue base of local government to include taxes better related to ability-to-pay and better suited to the funding of a given set of services. The second is to provide increased program funding assistance in the form of grants from the provincial government to local governments. The third is to rationalize the scope of services currently provided by local government and the

provincial government so that services that are not appropriately funded from property taxes are funded by the provincial government from its broader tax base.

As a practical matter, the public policy goal of providing both for local services that meet provincial standards and for fair funding of those services cannot effectively be addressed by broadening the local revenue base. There is no reason to expect that communities that cannot raise adequate funding from the property tax will be any better able to do so from other revenue sources. Provincial-level funding is required if these goals are to be met. Historically, the practice in Ontario has been to provide provincial funding to support local services indirectly through equalization or service-linked incentive grants to local governments. The more significant this assistance is and the stronger the provincial commitment to equitable standards of services, the greater the problems created for local governance and accountability. In recent years, concerns about problems of accountability created by shared-cost programs has led to proposals to make the provincial government directly responsible in key areas where provincial standards are desirable and to make municipalities directly responsible where differences in local conditions warrant differences in service levels.

The working group rejects the idea of addressing the problems in funding of local services by creating new local taxes levied on broader ability-to-pay related bases such as income or sales. The other side of the coin, however, is that a resolution of the issues of appropriateness, equalization and accountability raised by the alternatives of equalization and expenditure responsibility reform that are addressed in this report must form part of any comprehensive response.

CONCLUSION #8 - THE PROPERTY TAX AS A LOCAL REVENUE SOURCE

The following characteristics of the property tax make it appropriate as a revenue source for local government:

- **the stability and lack of mobility of the tax base;**
- **the relative ease of administration and collection;**
- **the fact that it is a difficult tax to avoid;**
- **the visibility of the tax to the taxpayers and the potential for a strong link between taxation and expenditure decisions.**

The Provincial Government and the Property Tax

As the recommendations with respect to the Commercial Concentration Tax and the Provincial Land Tax make clear, the working group is opposed to direct provincial incursions into the property tax field. The natural advantages of property taxes as a local revenue source suggest that it should not be tapped directly by the provincial government.

Even without these direct incursions into the property tax field, the provincial government is heavily involved in the determination of property taxes at the local level. More than one third of local spending is financed through provincial grants of one form or another.

Table 7.

PROVINCIAL-MUNICIPAL
COST-SHARING PROGRAMS. ONTARIO 1991-1992

Provincial Transfer Policy Area	($ millions) Provincial Share (Grants)	Local Share (Taxes)	Fees (est)	Total
Municipal Affairs				
Uncond. Grants	947			947
Cond. Grants	36			36
Other	6			6
Education	5,203	6,967		12,170
Transportation				
Roads	820	1,935		2,755
Transit	423	215	844	1,482
Other	10	49		59
Com. & Social Serv.				
Welfare	2,102	366		2,468
Child Care	272	78	23	373
Homes for Aged	345	171	263	779
Child Welfare	348	80		428
Environment	274	1,505	1,600	3,379
Health				
Health Units	204	91	24	319
Other	61	105		166
Natural Resources				
Cons. Authorities	53	52		105
Culture and Communications				
Libraries Boards	43	352	13	408
Tourism and Recreation	53	1,071	289	1,413
Total	**11,200**	**13,037**	**3,056**	**27,293**

The current system of municipal government finance is complicated by the existence of well over 100 programs for cost sharing of particular services between municipal governments and the provincial government. Approximately 30% of total municipal operating expenditures are financed through provincial grants. This mixture of provincial and local responsibilities makes it difficult for either level of government to plan and set priorities; it serves as a vehicle for downloading financial responsibilities to local government and presents a confusing picture to the electorate to which both levels of government are expected to be accountable.

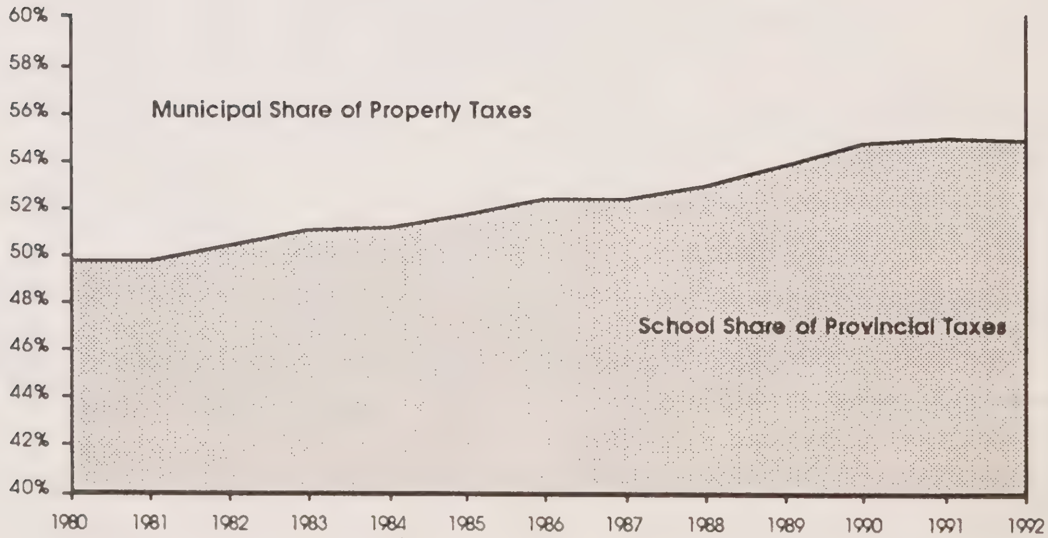
The complex array of shared cost and fiscal equalization programs at the municipal level and the system for fiscal equalization in education has the effect of blurring the distinction between local and provincial responsibilities.

This intermingling of responsibilities gives the provincial government an indirect influence on local taxes. In 1990, property taxes for "recognized expenditures" accounted for approximately 63% of education property taxes. Therefore, in effect, 63% of the education levy could be said to be determined by the provincial as a result of the operation of the grants formula. When funding formulae change, the changes have an immediate effect on local tax levels.

During the 1980s, the failure of provincial grants to keep pace with costs resulted in an increase in the share of property taxes in education funding. The share increased from 48% of operating expenditure in 1980 to 61% in 1990. This downloading of fiscal responsibility was the major contributing factor to the shift in the property tax split from roughly 50% education/50% municipal at the beginning of the decade to about 55% education/45% municipal at the end of the decade.

Chart 32

EDUCATION AND MUNICIPAL SHARE OF PROPERTY TAXES
ONTARIO 1980 TO 1992



Although provincial influence is less direct in such municipal programs as General Welfare Assistance, by requiring municipalities to fund a share of mandatory programs, the provincial government effectively determines a portion of the local municipal property tax. In addition, because municipalities are required to fund a fixed proportion of such programs as welfare, both provincial decisions to broaden eligibility for welfare and the current recession have driven up the dollar amount of those costs, resulting in dramatic increases in taxes to support those programs.

The problems of accountability and responsibility in the current provincial-local financial structure are obvious. Many of these issues arise in the context of other reviews of the provincial-local relationship which are currently under way and are addressed later in this report. Given the scope of provincial involvement in the local sector overall, it is unlikely that these reviews will result in a complete separation of provincial and local roles. It is reasonable to expect, however, that efforts will be made to clarify responsibilities.

RECOMMENDATION #37 – SHARING RESPONSIBILITY

Although property taxes are paid to municipalities and school boards, both provincial and federal laws and policies actually determine a significant portion of the bill. To improve accountability and clarify responsibilities, this must be acknowledged and explained clearly to local property taxpayers.

Alternatives to the Property Tax as a local revenue source

The property tax has a number of characteristics that make it appropriate as a local revenue source, as outlined above. At the same time, fairness criteria suggest that it is not appropriate as a dedicated revenue source at the local level for services that are income redistributive and have spillover effects such as education and welfare. One approach that has been suggested to this problem is to give municipalities direct access to more broadly based taxes such as income, sales and payroll taxes.

The working group considered this approach, and rejected it for two main reasons. First, many of the characteristics that make property taxes an appropriate source of revenue for local government are not present for local income, sales and payroll taxes. These tax bases are more mobile in response to differential tax rates, making local taxes on these bases relatively easy to avoid. In addition, because these tax fields are occupied substantially by both the federal and provincial governments, they would not be as visible to local taxpayers.

Second, giving local government access to ability-to-pay related taxes does nothing to address the problem of equity in access to service. This problem arises because some municipalities lack the assessment base to provide for provincially mandated levels of service. There is no reason in general to believe that local income, sales or payroll tax revenue would be substantially better matched to needs in Ontario than is property tax revenue.

RECOMMENDATION #38 – INCOME, SALES AND PAYROLL TAXES

Local governments should not be given the power to enact local income, sales or payroll taxes.

The working group also considered a special local tax on transient accommodation (hotel and motel tax) as a possible alternative revenue source. Concerns raised about such a tax included the problem in principle of permitting municipalities to shift a greater proportion of the cost of providing local services onto non-residents and the potential impact of an additional tax on the tourist industry. It was also noted that commercial facilities for transient accommodation are already taxed more heavily than other commercial operations in that they do not benefit from the lower residential tax rate on vacant space.

RECOMMENDATION #39 – HOTEL AND MOTEL TAXES

Local governments should not be given the power to enact local taxes on hotels and motels.

The poll tax is a flat rate tax on every resident, regardless of personal circumstances. By definition, it bears no relationship to the ability-to-pay of the taxpayer, nor does it purport to bear any relationship to benefits received from local services. When a poll tax was introduced as a replacement for property taxes in Great Britain in the 1980s, it generated widespread tax revolts, and led directly to the removal of Margaret Thatcher as Prime Minister by her parliamentary caucus. It was subsequently withdrawn and a modified combined property tax has been reintroduced.

RECOMMENDATION #40 – POLL TAXES

Poll taxes are not acceptable on equity grounds as an alternative revenue source for local government.

Flexibility in local tax policy

The overriding issue with respect to local policy authority over the property tax is the extent to which it is appropriate for the relationship between property taxes on different types of property within a community to vary. A tax system with the same relationships among tax rates across the province would tax all classes of property in a given community at the same effective rate. Tax rates would differ between communities as a result of differences in local services and overall assessment wealth, but within the community, the rate of tax on each class of property relative to the rate of tax on other classes of property would be the same. A tax system that allowed tax rate relationships to vary would permit the tax rates on one class of property to vary in relation to the tax rates on other classes of property between communities. For example, in a variable relationship system, one community might decide to tax commercial property at a higher rate than industrial property; another community might decide to tax commercial property at a lower rate than industrial property.

The working group has recommended that relative tax rates be permitted to vary within bands established by the provincial government and between classes established by the provincial government. Another issue to be considered concerns what we mean by "local" when we refer to local property tax policy flexibility. Does "local" mean lower-tier municipalities, upper-tier municipalities or school boards?

Two of the main considerations in determining which local governments should have the authority to exercise tax policy are: what objectives are being served by providing the local authority in the first place; what are the key problems that must be addressed in designing a policy approach.

One of the key goals of the working group in recommending that a clear distinction be made between the assessment base and the taxation policies that apply to the base was to make it easier for taxpayers to compare their taxes with those in other parts of Ontario and in neighbouring communities. While any tax policy that permits tax systems to differ between municipalities detracts somewhat from this goal, the system should minimize the potential for confusion by providing that there be only one local authority making tax policy at the local level. A second consideration relates specifically to the application of different tax policies at the lower-tier level. A policy that permitted different tax policies to apply at the lower-tier municipal level would make it difficult to operate consistent and reliable equalization programs at the provincial level and would complicate the financial relationships among lower-tier municipalities within a single upper-tier jurisdiction (either an upper-tier municipality or a school board which spans more than one lower-tier municipal jurisdiction). If all local government institutions that span more than one lower-tier municipal government had the same boundaries, this might be the definitive argument for making tax policy and administration an upper-tier municipal responsibility. At the very least, a flexible tax rate policy must establish a basis for co-ordination of tax policies among the local jurisdictions that form part of upper-tier municipalities and school boards.

The exercise of independent tax policy at the local level has the potential to create incentives for individuals or corporations to locate in one jurisdiction rather than others. This could create a "beggar-thy-neighbour bonusing system" that pits communities against each other if the decision to locate is made on grounds of tax policy, rather than on grounds of real differences in economic and/or social characteristics of the community, such as the skills base or education level of the work force or the presence of complementary industries in the jurisdiction. As the recommendations in this report with respect to tax abatements for economic development make clear, the working group is opposed to tax-based "bonusing" in any form. Provincially set "bands" within which tax rate relationships would be permitted to vary and the classes between which relationships could vary should be established to control the extent to limit these potential problems.

Which "local" government?

The question of which local government should exercise tax policy raises a number of very difficult questions about the relationship between the various local jurisdictions (upper and lower-tier municipalities, school boards and special purpose bodies) that share the local tax base.

- Which local jurisdictions should be permitted to exercise tax policy?
- Can different policies be exercised by different jurisdictions sharing the same tax base?
- If only one jurisdiction is permitted to exercise tax policy flexibility, would that jurisdiction's tax policy affect the revenue raising potential of other jurisdictions?
- What are the implications for political and financial accountability, simplicity, transparency and equity among taxpayers and jurisdictions?
- What would the impact of the exercise of local tax policy powers be on provincial equalization programs?

The goal in structuring tax policy responsibilities for local government finance should be to produce tax policies which are simple, understandable, visible, equitable, consistent, explicit and as fair as possible. Based on these considerations, the working group concluded that tax administration should remain a lower-tier municipal responsibility and that tax policy authority should rest with the level of government that is responsible for tax administration.

RECOMMENDATION #41 – WHICH LOCAL GOVERNMENT SHOULD EXERCISE TAXING POWERS[46]

School boards should not have the power to levy taxes, or participate in assessment or tax collection, except in regions of Ontario where the school board is the tax collecting authority.[47]

Mill rate relationships should be established at the lower-tier level. A consensus-building mechanism should be developed for the determination of tax policy with upper-tier municipalities and school boards;

In order to make the tax system more accountable, information in the tax bills should clearly set out who is responsible for how much of which tax. This would involve, for example, setting out clearly the provincially determined portion of the mill rate for education as distinct from the locally determined rate.

---

46 This recommendation should be read in conjunction with Recommendation #2 – Taxation policy flexibility for local governments, which deals with the tax policy question of the appropriateness of flexibility in principle. This recommendation deals with the specific question of which institutions of local government should exercise this policy flexibility.

47 Separate school boards in Ontario have the constitutional right to levy taxes. They have chosen not to exercise that right. Separate school boards rely on municipal governments as tax collectors as do public school boards. As it relates to separate school boards, this recommendation should be taken as a recommendation to separate school boards to continue to raise their property tax revenue through municipalities.

Tax abatements and economic development

In 1962, the provincial government enacted legislation to prohibit municipalities from offering financial incentives to new or existing businesses. Section 111 of the Municipal Act (R.S.O 1990), prohibits any form of municipal bonusing of companies, including:

- giving/lending any municipal property or money;
- guaranteed borrowing;
- leasing or selling municipal property below fair market value;
- total/partial exemption from any levy, charge or fee
- joint ventures with the private sector for public purposes.

The economic context today is very different from that of 1962 when the strict bonusing prohibition was enacted. Ontario's current economic condition is weaker than at any time since the 1930s, while competition for business location from other jurisdictions, especially U.S. municipalities, remains intense. Some municipalities have requested changes in Ontario's anti-bonusing legislation to enable them to compete with other jurisdictions in attracting or retaining business and to support their priorities for enterprise development and co-ventures with the private sector.

The basic goal of preventing self-destructive competition among municipalities outlined in the 1962 legislation is a desirable one. Evidence from the United States suggests that the practice of offering tax abatements has contributed to an erosion of the local tax base and consequently of the ability of local governments to provide for significant economic infrastructure. Robert Reich, a U.S. business economist, reports that the spread of bonusing in the United States in recent decades has resulted in a decline of the business share of property tax revenues from 45% in 1957 to 16% in 1991.[48] Michigan estimates that municipal taxes forgone through property tax abatements in that state amount to more than $150 million each year.

Reich argues that bonusing in the United States has actually been destructive to the economic viability of American industry by driving down the capacity of local government to finance the education and infrastructure investments that are the key to competition in the modern world economy.

As desirable as the restrictions on tax abatements may be, however, the current anti-bonusing rules cast the net so broadly that they make it impossible for local governments to pursue legitimate and desirable economic development objectives. For example, some municipalities have found that the bonusing prohibition prevents worthwhile joint public and private initiatives or co-ventures related to public purposes that are not in themselves commercial undertakings. This argument would suggest a more pragmatic and flexible approach that would address the issue of lowest common denominator competition while permitting policies to promote economic development at the local level.

48 Robert B. Reich, "Training a skilled work force"; Dissent; Winter 1992, p.43

This report makes no attempt to resolve the issue of how local governments and the provincial government can effectively deliver programs for economic development. The focus is on the use of the tax system to provide incentives for economic development. In principle, the tax policy issues raised by tax abatements for economic development are similar to the issues raised by tax exemptions. The key issues relate to accountability and fairness.

The accountability problem with targeted tax breaks is their invisible cost. Bonusing is a form of implicit tax expenditure. Once in place, tax incentives generally do not enter into the annual budgeting and planning process and are not reported in the government's annual financial statements. Although tax abatements have the same effect on taxpayers as direct expenditures in that taxes on those who do not receive the abatements go up, the costs remain hidden.

Tax abatements also raise important fairness issues. To be effective, abatements must make distinctions among companies on some basis. For example, abatements might apply to companies in some industries and not others, to new operations rather than existing ones, or to companies moving from outside the province but not to companies moving from within the province. These distinctions create unfairness. Businesses that are already located in the municipality offering abatements to induce companies to relocate find themselves subsidizing their competition. Residential ratepayers will be obliged to subsidize business through higher property taxes on the remaining tax base, higher user fees or reduced service levels. Tax abatements might have the perverse effect of inducing pre-existing operations to locate elsewhere to avoid higher taxes brought on by the abatements offered to new facilities.

The stability of municipal revenues is affected by tax exemptions and abatements. When all municipalities use the same bonusing tools, the advantages created by one municipality for existing and potential industries will be matched and probably cancelled out by advantages offered from competing municipalities. By triggering tax competition among Ontario municipalities, tax abatements would negatively affect a significant source of local revenue and endanger the financial stability and economic viability of all municipalities.

However, a strong argument for local incentives has been made by one-industry communities. In this case, the arguments concerning competition carry less weight and the stakes for the community are much higher. The economic fortune of such communities may be directly connected to the financial health of a single industry. A decision to relocate could be devastating for the local economy. Consequently, it is argued that incentives can be supported in these communities even if they should not be supported for the province generally.

A number of alternatives to tax abatements exist that could play an important role in provincial and local economic development without putting the local financial system at risk. These measures, all of which are prohibited by current bonusing restrictions, include:

- investment loans on favorable terms, joint ventures or other measures requiring more active municipal evaluation or involvement with the company;
- programs to encourage the creation of regional pacts which provide incentives for cooperation among firms, labour unions and local government; and
- community development bonds and community loan funds.

Economic development is a complex issue and responsibility for it is not easily divided among levels of government. Many factors, determined at different levels, must be integrated to influence economic development at the local level. The key factors influencing business and industry – interest and exchange rates, trade policies, training policies and so on – are still much more responsive to provincial and federal decisions than to local policies. It would be misleading to assume that local economic development can be achieved with policies originating at the local level only.

RECOMMENDATION #42 – TAX ABATEMENTS FOR ECONOMIC DEVELOPMENT

Local governments should not be permitted to offer property tax abatements for economic development.

Provincial restrictions on bonusing should be loosened to permit a co-operative and pragmatic approach to be developed by local governments and the provincial government that would permit municipalities to take innovative approaches to public/private partnerships and that would enable the provincial government and municipalities to take advantage of community economic development instruments such as community development bonds.

This would allow, for example, incentives offered to induce a major industry to stay or locate in a one industry or dominant industry town under certain circumstances.

Local tax policies established within the tax rate "bands" set by the provincial government should be monitored to ensure that they do not become vehicles for large-scale competitive tax abatements.

Governance

"Taxes are what we pay for civilized society."[49]

This oft-quoted statement by U.S. Supreme Court Justice Oliver Wendell Holmes makes a basic point about the role of taxation – that in a democratic society, taxes are not a "burden" that can be divorced from the services for which they pay. Taxes pay for those things we decide to provide collectively in support of society generally.

The statement also adds a dimension to popular perceptions of tax fairness. At an individual level, a tax system is not fair if the distribution of obligations to pay tax is not consistent with commonly accepted principles of fairness. Those principles underlie the recommendations of the working group for changes to the local revenue system in Ontario. But the link between taxes and services suggests that for society as a whole, taxes are not fair if we are not getting the services or programs we want for the taxes we pay.

The relationship between the taxes we pay and the services we receive is principally a political problem and not, strictly speaking, a tax fairness problem. To the extent that this is an issue, it raises important questions about how well the people we elect actually represent us and about the ability of our political institutions to translate our collective wishes into action effectively and efficiently. These difficult questions are by no means exclusively asked of local government. They are important questions at the federal and provincial level as well.

At the national level, questions about the effectiveness of our political institutions are addressed through the process of constitutional review and renewal. At the local level, such questions point to a need for review and renewal of the structure and functioning of municipalities and school boards.

There is no doubt that the relationship between taxes and services at the local level is at issue in Ontario. We have 832 municipal governments in Ontario. The recession has put enormous pressure on the finances of smaller municipalities not only because of pressures on revenues but also because of provincial downloading of funding responsibilities. Duplication and inefficiency as well as competition and lack of coordination – between the provincial and local government, among neighbouring municipalities and between lower-tier and upper-tier municipalities – that might have been tolerated in better economic circumstances give rise to political controversy in these more difficult times. It has become more obvious, for example, that small neighbouring municipalities cannot always afford their own equipment and staff. There is a critical need for more cooperation to reduce costs. Municipal staff must also be trained to a higher level in order to deal with the increasingly complex issues facing municipal government in areas such as planning and development which directly affect local needs and services.

---

49 Compania de Tabacos v. Collector 275 U.S. 87 p.100 (1927)

In rural Ontario, years of out-migration and the decline of the agricultural economy have put pressures on the system that it was not designed to handle. Models for local government reform that may make sense in urban Ontario meet strong resistance in rural areas. As a result, serious financial and governance problems persist.

The large units of government in the "golden horseshoe" area of Ontario that were intended to facilitate planning and efficient infrastructure development no longer fulfill that function. Special non-elected bodies like the Greater Toronto Area Coordinating Committee have been created to facilitate coordination.

Special purpose bodies are a significant threat both to accountability and to fiscal responsibility. Although there has been some progress in reducing their number and in bringing others under democratic control, the relative independence of these bodies remains a problem. Furthermore, suggestions are regularly made for new special purpose bodies carrying the same accountability problems as the unelected bodies we already have at the local level.

The issues in the area of education are equally pressing. Duplication of services, both highly visible (transportation) and invisible (growth in administrative staffing), undermine public confidence in the ability of the system to deliver value for money. Recent changes in both education governance and entitlements have made the traditional parallel systems much more apparent to the public. The traditional links in Ontario among entitlements, funding and governance have enhanced the status and visibility of the separate school system and have given rise to new governance structures for French language education.

At the same time, local government is under increasing pressure to deliver more services. Imbalances in resources available to children educated in assessment-poor and assessment-rich boards have highlighted the issue of equity in our education system. And the "new economics" with its emphasis on training, workforce quality and worker adaptability has put education standards in the spotlight. Within municipalities, there are increasing needs for infrastructure investments to address environmental issues. Expectations for service levels tend to be driven by the standards of urban Ontario. Local government is being asked to provide more and better quality services more efficiently.

Finally, the large number of acclamations in local elections and continued low voter turnouts raise concerns about the health of Ontario's local democratic institutions.

Some of these issues are under discussion in the large number of reviews currently under way within the provincial government that relate to the expenditure side of local government. However, the fundamental question of the adequacy and effectiveness of our structures of local government to meet the challenges they face today is not being addressed. In addition, insufficient attention is being given to the relationships among these various studies and their implication for local government structure.

It is evident from the background work done for the working group and from the discussions within the group, that the fairness questions referred to the working

group by the Treasurer cannot fully be answered with reference only to property taxes and other local government revenue sources. A more comprehensive review of the ability of our local government structures to meet the challenges that they face in the 1990s is also required.

RECOMMENDATION #43 - LOCAL GOVERNANCE

The provincial government should institute a comprehensive review of the structure and effectiveness of our institutions of local government. This review should recommend approaches to integrating the results of the various reviews of local government responsibilities, funding and services currently in progress as well as propose structures for local government that can respond effectively to the economic and political challenges faced by local government in this province.

VIII. ADMINISTRATION AND TRANSITION

There are two key elements of fairness that apply generally to every tax. A tax will never be considered fair if people don't understand it. And a tax will never be considered fair if taxpayers do not have an open and accessible avenue for appeal when they question the basis for the tax they are paying. By these standards, the property tax system in Ontario falls short.

From the taxpayer's perspective, the local government finance system is nothing short of impenetrable. The role of assessment in relation to tax is mysterious. In most areas, three distinct levels of government—lower-tier municipal, upper-tier municipal and school boards—determine portions of the tax rate. Local politicians regularly blame the provincial government for tax increases. The provincial government regularly accuses local politicians of fiscal irresponsibility. To the taxpayer, assessment appears to be mysterious, generating numbers that are difficult to rationalize or relate to everyday experience. Local government finance is full of archaic language – mill rate, instead of tax rate, for example. The *Assessment Act* is difficult to understand – it relates to the world of the 1890s as opposed to the world of the 1990s.

The recommendations of the working group on administrative matters are intended to address the many problems the system poses for the taxpayer when he or she attempts to come to grips with it. While it is true that administrative changes alone will not solve the problems with the system, it is equally true that a reformed system which the taxpayer doesn't understand and doesn't feel fairly treated by will not succeed in building public confidence in the local government financial system in Ontario either.

The Assessment Act

The archaic language and outdated provisions of the *Assessment Act* have been the subject of much criticism by taxpayers, municipalities and the courts.

The *Assessment Act* has been amended in a patchwork manner over the last 90 years to solve individual and unique assessing and taxing issues. While it has been reviewed by a number of commissions, some recommending comprehensive change, the Act has not been the subject of a thorough legislative overhaul. In many respects it is unchanged since it was first written in 1904.

This has led to difficulty in its application in today's society. There are problems with interpretation by taxpayers, uncertainty and inconsistency in municipal tax bases and a reluctance by the courts to interpret its antiquated provisions.

RECOMMENDATION #44 – A NEW LEGISLATIVE FRAMEWORK FOR ASSESSMENT AND LOCAL TAXATION IN ONTARIO

The *Assessment Act* should be rewritten to reflect current terminology and technology.

> Such rewriting would permit the *Assessment Act* to be dedicated entirely to the assessment of real property for local government taxation. The revised Act would focus explicitly on assessment policy, valuation procedures and related administrative matters.

A new municipal taxation act should be enacted to deal with matters relating to local government finance, including the treatment of gross receipts, additions to the roll, and guidelines for tax rates and tax exemptions.

A new assessment appeals act should be enacted to provide for all assessment appeal procedures. This will enable the public to better understand assessment appeal procedures, the rights of appeal and the avenues for further appeal.

The guidelines and procedures used by assessors in valuing property should be subject to formal review and approval and incorporated into the Assessment Act by regulation. In particular, there should be a legislated definition of what is meant by "vicinity" as well as a definition of "comparables" for use in determining the basis on which properties may be selected for assessment purposes.

This re-establishment of the legal basis for local government finance in Ontario, including the redrafting of the *Assessment Act* and the introduction of new laws dealing separately with local government finance and assessment appeals, should include simultaneous and parallel alignment of all related and affected legislation and repeal of existing private legislation that is either redundant or in conflict with the new system.

Communication with the public

Ontario's current assessment system has been criticized as being difficult to understand. Ratepayers have also indicated that they are unclear about their rights of appeal and how to bring an appeal before the Assessment Review Board (ARB). These criticisms suggest that the Ministry of Revenue's current practice of providing information, consultation and assistance to property owners and tenants should be reviewed and improved.

At present, Revenue's public information program consists of:

- Information brochures.
- Notices of Property Valuation.
- Over-the-counter and over-the-phone services, including both toll free and collect call features.

- Assessment open house information sessions which explain valuations and provide appeal assistance.
- Pre-assessment appeal interviews to assist ratepayers in measuring the fairness of their assessments, to explain the appeal process, and to provide assistance in filing assessment appeals.
- Various activities in support of council meetings, to address ratepayer group concerns and related community events.

RECOMMENDATION #45 – BUILDING PUBLIC UNDERSTANDING OF THE PROPERTY TAX SYSTEM

The Ministry of Revenue should strengthen its public information activities by:

- **Publishing a handbook on residential assessment appeals.**
- **Publishing a short menu of assessment services.**
- **Establishing the position of taxpayer "ombudsman"[50] in each regional assessment office to handle public enquiries and complaints which go beyond requests for information.**

The Ministry of Revenue should develop a brochure explaining valuation procedures and assessment appeals. Such a brochure should accompany regular mailings of Notices of Property Valuation and special mailings to new property owners.

The Ministry of Revenue should hold annual assessment open house information sessions in each Regional Assessment Office and provide the public with a close-up view of valuation methods, techniques and practices.

Management of the reassessment process

The working group recognizes that reforms of the nature proposed in this report will take time to implement. In the meantime the existing system must continue to function. As noted above, there are a large number of reassessments currently in process. Changes are needed to make them work more effectively.

The Ministry of Revenue offers three reassessment programs to municipalities and school boards located in unorganized areas of the province. These three reassessment programs are:

- Local Reassessment by Property Class.

50 The term "ombudsman" is not meant here to suggest that this function should be performed by the Ombudsman's office or that this function should be administratively separate from the Ministry of Revenue. The term is used to suggest the role of a facilitator who is "on the taxpayer's side" in each regional assessment office. It is contemplated that this role could be fulfilled from existing regional assessment office staff and it is anticipated that effective performance of this function would actually reduce costs by streamlining relationships between taxpayers and assessment authorities.

- Local Reassessment at Full Market Value.
- Region/County-wide Assessment.

There is some concern that these programs are not well understood by smaller municipalities and the general public.

These programs are offered to municipalities on a voluntary basis. This allows municipalities to exercise local autonomy, electing to implement the reassessment program that is most appropriate for their local conditions, realities and preferences.

However, there is a mandatory four-year update provision for both region and county-wide reassessments. By policy, the Ministry of Revenue only prepares a tax impact study for municipal preview and consideration after an official request from a municipality via a formal resolution of its council. The Ministry of Revenue then presents the results of the tax impact study to both the requesting council(s) and appointed staff. Finally, a voluntary reassessment is implemented following a second and final resolution by the requesting council.

There is no deadline for a decision by the requesting council about whether or not to proceed with the possible reassessment, nor are there any requirements with respect to public information, disclosure or process.

This often causes public uncertainty and administrative delays and makes it difficult for residential and commercial ratepayers to plan for any tax increases.

RECOMMENDATION #46 – ASSESSMENT REFORM IN THE INTERIM

The Ministry of Revenue should consult with the Association of Municipalities of Ontario (AMO) and the school board associations to develop a schedule of services and fees for reassessment services and procedures for assessment reform, including public information disclosure and participation procedures, sunset provisions for municipal reassessment decisions and joint public information activities.

Assessment appeals

Making the assessment appeal process more accessible and understandable to the public is central to building the efficiency and credibility of the entire system. The Assessment Review Board evolved from the Court of Revision, the earliest mechanism for assessment appeal. The main responsibility of the Court of Revision, was to resolve the complaints regarding the amount of assessments. There was no requirement that persons who sat on the Court of Revision be expert in property valuation, although they were generally thought of as having been selected for their common sense approach to the issues. Where the issues were simple, procedural informality did not significantly prejudice the fair determination of the value of property. The Assessment Review Board was set up in 1970 with the same responsibility as the pre-existing courts of revision, with both the "lay character" and "informal procedures" of the Court of Revision. The Ontario Municipal Board considers ap-

peals from Assessment Review Board decisions on complaints and is the final decision making body on questions of fact. Questions of law are resolved by the courts.

Since the Assessment Review Board is not a court of record, appeals from Assessment Review Board decisions on assessment complaints to the Ontario Municipal Board result in a rehearing of the entire complaint. In many complex cases, the parties to the complaint simply ask the Assessment Review Board to confirm the original assessment in order to speed up progress toward final determination by the Ontario Municipal Board.

The issues addressed by assessment complaints can range from changes in a taxpayer's designation of school support to complex valuation problems involving tens of millions of dollars in assessment and millions of dollars in property taxes. As a first level complaints body, the Assessment Review Board must strike a delicate balance between the need for a technical capacity to deal with complex issues and the need to maintain an atmosphere in which non-expert complainants can present their cases fairly and effectively. The current system does not reflect an appropriate balance.

Based on their experience taxpayers report that the Assessment Review Board is lacking important knowledge and understanding of the system and is unable to resolve crucial issues. Often Ministry of Revenue officials are the only people present at hearings with an understanding of the system. Consequently, the adjudicators tend to defer to the expertise of the officials.

This makes the process inefficient and undermines its credibility with taxpayer participants. Delays in the process impose unnecessary administrative burdens on complainants by requiring new complaints to be filed for each assessment year when an outstanding complaint has not been resolved.

RECOMMENDATION #47 - ASSESSMENT APPEALS

All issues with respect to assessment should be reviewed by the Assessment Review Board and all appeals, whether on questions of law or of fact of decisions by the Assessment Review Board, should be heard by a new Assessment Appeal Board. The Assessment Appeal Board should be organized as the appeals division of the Assessment Review Board. All members of the Assessment Appeal Board should be members of the Assessment Review Board.

The procedures for the Assessment Review Board should be made more informal, with the onus of proof being placed on the property assessor rather than on the appellant.

All appeals should be registered with the Assessment Review Board.

On agreement of the parties to an assessment complaint, the Assessment Appeals Board should be permitted to make a final determination of a complaint without first requiring the parties to go through the formality of a complaint to the Assessment Review Board.

A filing fee should be charged when an appeal proceeds from the Assessment Review Board to the Assessment Appeals Board.

The procedures governing appeals from the Assessment Appeals Board should follow current legal appeal procedures for judicial review.

Some of the Assessment Review Board's more routine administrative functions (e.g. amending names, addresses, routine school support changes and certain property descriptions) should be delegated for resolution at the administrative level, with the participation of the regional taxpayer "ombudsman" and/or another designated person.

The Assessment Review Board and the Assessment Appeal Board should be required to schedule a hearing within one year of the filing of a complaint or appeal and to render their decisions within 90 days following the hearing of a complaint or appeal.

All complaints and appeals should apply to the current and all subsequent years' assessments until a new assessment notice is filed.

The Assessment Review Board should institute and enforce procedures that require all parties participating in difficult and complicated hearings before the Board to make full disclosure as a precondition to participation in a hearing.

The time for the appeal to the Assessment Review Board should be extended from the current 21 days to 60 days.

The Assessment Review Board should continue to send out a notice to appellants advising them of the receipt of their assessment appeals. An information sheet regarding assessment appeals prepared by the Assessment Appeal Board should be included with this notice.

Criteria should be established for the selection of certain specialist members to the Assessment Review Board who could be assigned to deal with complicated valuation issues.

Transition

Successive governments in Ontario have failed in attempts to reform the system of local government finance over the past 20 years for three main reasons. First, they attempted to reform the system one piece or element at a time. Second, they failed to establish a persuasive case for the benefits to the province as a whole of the proposed reforms. Third, they failed to address adequately the problems faced by individual taxpayers in the transition from the current system to a reformed system.

These three factors are intimately interrelated. In a piece-by-piece approach to reform, the individual elements may not offer sufficient benefits to justify the dislocation associated with change. Such an approach may also miss opportunities to offset transitional impacts against each other that might be presented by a more comprehensive approach. Likewise, failure to establish a persuasive case for the value of the reform shifts the focus of debate towards transitional issues, to the exclusion of the original purpose of the reform. Finally, if transitional questions are not addressed adequately, the debate will never get to the substantive benefits offered by the reform.

One of the legacies of Ontario's failure to address problems in its system of local government and local government finance is that each successive attempt at reform is faced with a more serious set of problems than was the previous attempt. The problems don't go away with time, they get worse. Whatever the consequences may be of action to reform the system, the consequences of doing nothing now will be that much worse in the future.

A second important consideration is that, perhaps unlike other areas of finance reform, property tax reform has not failed because of the influence of interest groups; it has failed because the ease with which winners and losers can be identified among ratepayers generates a powerful force against change. Without some overriding case in favour of a change, whatever force for change is generated by those who perceive themselves to be winners will be counterbalanced by the negative force of those who perceive themselves to be losers.

Finally, transitional measures which are too complicated to be easily understood or which make a virtue out of delaying the implementation of the change undermine the case for the reform. Such measures beg the question of why the reform is taking place at all if a major benefit of the system is that transition will delay its implementation indefinitely.[51]

---

51 Although the working group addressed the question of transition as a general issue applicable to all reforms of local government finance, it also considered the specific proposals in the Metro Toronto Interim Assessment Model. The group concluded that it could not support transitional mechanisms which provide for different transitional measures for different classes of property, which do not provide for transition over a fixed period of time and which call for the costs of transition for one class of property to be borne by taxpayers in another class of property.

RECOMMENDATION #48 – CRITERIA FOR TRANSITIONAL ARRANGEMENTS

Transitional arrangements are essential to the success of any reform exercise. In order to be successful, however, any reform must be explained and justified on its own merits and not on the basis of the quality of the transitional measures which it provides.

The purpose of transitional measures should be to avoid sudden and substantial property tax shocks.

IT IS RECOMMENDED:

- That local government financial reform must be as comprehensive as possible, both to ensure that the dislocation is worthwhile and to maximize the opportunities for impacts to offset each other.
- That the focus of reform must be broader than assessment so as to expand opportunities for enhancing fairness in the local revenue system.
- That the broader equity goals of reform must be effectively communicated and explained.
- That transition must take place over a defined period of time (three years or five years, for example) rather than being linked to some event such as the sale of individual properties.
- That, to the extent possible, movement towards reform must be weighted towards the beginning of the transitional period to generate momentum in the early stages.
- That to the extent that the costs of transition are not managed by phasing in gains and losses at the same rate, they must be carried by the entire tax base and not by any particular class of property (in the case of tax reform) or local government (in the case of grants reform).
- That transitional measures must be limited to significant changes. Tax changes below a certain amount or percentage should not be subject to transitional arrangements. Similarly, grant or apportionment changes below a certain percentage should not be subject to phase-in provisions.
- That the elements of the new policy must be properly integrated to deal with side-effects. For example, the adoption of a uniform assessment system across Ontario as recommended by the working group must be accompanied by the adoption of the working group's recommendation for a flexible mill rate policy that permits tax rates to vary within bands at the local level.

- That in reformed assessment systems, differences in effective tax rates that fall outside bands established by provincial legislation should be permitted to continue. Tax rate relationships outside the defined bands could be permitted on a basis similar to that for the permission granted to legal non-conforming uses in local planning. In such an approach, mill rate relationships outside the bands would be permitted to continue during the transition period, but could not move any further away from the permitted range.
- That the same transitional measures must apply to all classes of property.
- That local governments should be permitted to opt in or out of the full package of transitional measures, but not to select only a portion of the package for implementation.
- That transition mechanisms must apply to taxes, not to assessments.
- That in addition to the general mechanisms developed for transition, and notwithstanding the criteria that apply to other transitional measures, special measures should be developed to deal with hardship for residential taxpayers. Such measures should be tied to individual household income impact and should be delivered by the provincial government through the refundable income tax credit system.

CONCLUSION

This report began with two questions from the Treasurer. The first asked if the current property tax system is capable of meeting the revenue requirements of local governments' and school boards' program delivery responsibilities. The answer to this question is clearly "no".

The second question asked what changes should be made to the property tax system and/or other funding sources to improve fairness in revenue raising for local government. The foregoing report contains our answer to the second question.

To develop its response to questions put to the working group by the Treasurer and by the Ministers of Education and Municipal Affairs, the group conducted a review of all of the key elements of the local government finance system in this province:

- the system for assessment of property that determines the basis for local taxation in Ontario;
- the taxation policies that translate that assessment base into local property taxes;
- the distribution of provincial fiscal resources to support activities of local governments; and
- the system of local governance in Ontario and its powers and responsibilities in relation to the provincial government.

The findings of the working group with respect to these major elements of the local government finance system indicate that there are serious fairness problems with all of these key elements of the system of local government finance from the perspective of taxpayers.

The group found that the assessment system is inconsistent across the province. These inconsistencies are created in part by the use of different (and often outdated) assessments at the local level in Ontario, and in part by the unacknowledged existence of radically different local tax policies hidden behind a veil of statutory provincial uniformity. It also found that there is no systematic relationship between either market value based property taxes or taxes based on any of the likely alternative systems of assessment and the ability-to pay of taxpayers.

The working group recommended that assessment be made uniform across the province on a fair and consistent basis; that alternatives to the current market value approach be studied carefully before province-wide assessment reform; and that local municipalities be permitted to exercise taxation policy authority by varying the relationships among tax rates on different classes of property.

Overall, the working group found that Ontario relies too heavily on the property tax as a source of revenue. At one end of the services spectrum, the working group identified a number of environmental services which should be funded on a full cost recovery basis from users. At the other end of the services spectrum, the working group found that Ontario is far too dependent on property taxes to fund services

that support income redistribution or broad social policy objectives such as education.

The working group recommended that the provincial share of funding of education and social services be increased so as to reduce Ontario's dependence on the property tax. It also recommended that the provincial government rationalize the property tax system by eliminating the Commercial Concentration Tax and redefining the Provincial Land Tax to create a single property tax base in this province.

In looking at the way the provincial government distributes the funds it allocates to support services delivered at the local level, the working group found that for the program that is by far the largest consumer of provincial funding education the current system supports neither student equity nor taxpayer equity. The working group recommends to the Education Finance Reform project of the Ministry of Education that there be a completely revamped revenue system for local education in Ontario.

The working group also considered the implications of these proposals for our institutions of local government in Ontario, particularly in light of the concerns expressed regularly by taxpayers about the ability of the system to respond to their needs. The working group believes that it is time Ontario conducted a review of our local government system with a view to making changes that will enhance its ability to meet the needs of this province in the future.

In some areas, further work is required. The working group identified significant problems with the local business occupancy tax but was unable to conduct the kinds of careful impact studies that would lead to a firm recommendation. Similarly, with respect to alternatives to market value as an assessment system, the working group concluded that no system of assessment existed that could improve the relationship between property taxes and ability-to-pay, but was unable to complete the kind of thorough review that might support a firm recommendation with respect to an alternative to market value as an assessment base.

The process of reform will be difficult. It will be important to design the reform so as to minimize unintended transitional impacts. It will be important to take advantage of offsetting impacts from different policy changes by implementing as broad a reform as possible at one time. It will be important to put in place non-discriminatory transitional mechanisms to cushion the shocks associated with the change for individual taxpayers. But necessary as such transitional measures are, they will not be sufficient to gain acceptance for a proposed program. In the end, local government finance reform must be explained and justified on the basis of the public policy benefits it delivers.

Glossary

Ability-to-pay – A principle of tax fairness based on the assumptions that all taxpayers should make an equal sacrifice of well-being in paying taxes, and that as income increases the amount of well-being represented by a dollar of income decreases. It therefore follows that people who have the same capacity to pay taxes should pay the same amount of tax (horizontal equity), and that people who have different capacities to pay taxes should pay higher or lower taxes in proportion to their incomes (vertical equity). This principle provides the philosophical basis for progressive taxation. (see also Progressive taxation and Tax equity below)

Appraisers – Individuals who possess formal qualifications in the valuation of assets.

Assessment – When applied to municipal property taxation, refers to the determination of the value of property for municipal tax purposes. (See also Valuation methods below)

Bonusing – Providing a tax exemption, subsidy or other concession to a business as a means of attracting the business to locate in one jurisdiction rather than another.

Commercial Concentration Tax – A provincial tax levied on a per-square-foot basis on buildings of over 200,000 square feet located in the Greater Toronto Area. The Greater Toronto Area is defined as Metropolitan Toronto and the Regions of Peel, Halton, York and Durham.

Correlation – The correlation between items is a measure of the tendency of the values to move together. A positive correlation indicates a relationship in which high values of one variable tend to occur with high values of the other. A negative correlation indicates a relationship in which high values of one variable occur with low values of the other. A zero correlation indicating no association is sometimes referred to as independence. The correlation is measured by a statistic which ranges from -1, for a strong negative correlation; to zero, indicating no association; to +1, for a strong positive correlation. Limitation: correlation indicates an association; it does not prove causation.

Cost apportionment – The allocation among lower-tier municipalities of the costs of services provided to a number of lower-tier municipalities by an outside agency. Most commonly applies to the allocation of school board costs and upper-tier municipal costs among the municipalities that make up the school board or upper-tier municipal area.

Downloading – The shifting of costs of providing services from one level of government to another (lower) level of government. This can result from a "senior" level of government withdrawing from the provision of a service, formally transferring responsibility to a "junior" level of government without financial compensation or reducing the "senior" level's contribution to the funding of a program delivered by the "junior" government.

Effective tax rate – The rate of tax that actually applies to a property after taking into account differences in the way the assessment on which the tax is based is determined. For example, consider a property with an assessment of $10,000 which is 10% of its market value of $100,000. A tax of 20% would raise $2,000 in tax. The apparent tax rate is 20%. But the effective tax rate based on the value of the property is actually 2% ($2,000 on a value base of $100,000). This is often referred to as the "real" rate of tax.

Equalized assessment – When applied to assessment, equalization refers to the process of adjusting the assessments of properties so that they reflect the actual market values of property. For example, a property valued at $10,000 on the assessment roll and assessed at 10% of its market value would have an equalized assessment of $100,000. Equalized assessments are used by the provincial government to compare the property tax bases of local governments with different assessment systems.

Equalization – In local finance in Ontario, the term equalization refers to adjustments aimed at equalizing access to financial resources among local governments.

Equalization grants – The transfer of financial resources to local governments to enhance their ability to provide adequate services at reasonable cost to the local taxpayer. Equalized assessment is currently used as the basis for determining what is a "reasonable cost".

Farm Tax Rebate Program – A program of the provincial government that rebates to owners of farming properties 75% of the property tax that would otherwise be payable on the non-residential portion of the farming property. The residential portion is defined as the house and one acre of land.

Human services - Programs and activities designed to enhance people's development and well-being. This includes providing economic and social assistance for those unable to provide for their own needs.

Land transfer tax - Tax on the sale of land or real estate paid to the provincial government as a percentage of the selling price.

Lower-tier and upper-tier municipalities – Upper-tier municipalities are municipal government structures that provide services to the residents of the lower-tier municipalities that make up the upper-tier structure. Upper-tier governments include Metropolitan Toronto, the regional and district governments and counties. Lower-tier governments include towns, villages, townships, cities, and the borough of East York.

Market value assessment - Assessment is proportional to assessors' appraisals of the market value of property, where "market value" is defined as the price at which a willing seller would sell to a willing buyer on the open market.

Mill rate/tax rate – The mill rate is the rate of tax applied to the assessed value of property for local tax purposes in Ontario. A tax rate of one mill is a tax of $1.00 for each $1,000 of assessment, or 0.1%. A "mill rate" of 100 is a tax rate of 10% of the assessed value of a property. Municipalities set or "strike" mill rates annually to

meet the budgetary needs of lower-tier and upper-tier municipalities and school boards as well as other bodies that draw on the local tax base. The "mill rate" on a property is a combination of "lower-tier" taxes, "upper-tier" taxes and school board taxes.

Municipal tax - Tax assessed by municipalities on property to fund community services and education.

Neutrality – A common principle of tax design. A tax is considered to be neutral if it does not result in unintended changes in the economic behaviour of taxpayers. For example, a tax on windows would be non-neutral in its effect if it caused people to brick in their windows to avoid paying the tax.

"New economics" – Refers to the recent trend in economic policy towards an emphasis on better training and more effective organization of employees as opposed to capital investment.

Progressive taxation - A system of tax in which the rate of tax on an additional dollar of income increases as a taxpayer's capacity to pay tax increases. Progressive income tax systems are designed to levy a higher proportion of tax on high income taxpayers than on low income taxpayers. Distinguished from proportional taxation, in which the same proportion of income is taxed, regardless of the income level; and regressive taxation, in which the proportion of tax is higher for lower-income taxpayers than it is for higher-income taxpayers. (See also Ability-to-pay)

Property tax - A tax on the assessed value of land and buildings levied by municipal governments and used to fund local services.

Real property – Property which consists of or is equivalent to land and other assets attached to land. The basic definition of the tax base for local tax purposes.

Revenue neutral – Not resulting in any gain or loss of revenue to government.

Recognized Expenditure – The provincial government recognizes that a base level of funding per student is required by all school boards to provide a mandated level of education. These recognized expenditures are funded from a combination of provincial grants and property taxes and are also known as the "grant ceiling". The tax base of each board is taken into account in determining the grant so that it is possible for all boards to make the same tax effort to provide the base level of education programs and services.

Standard Mill Rate – Each school board is required to contribute its share towards the Recognized Expenditure. It does this by raising tax revenue from local sources at a uniform rate applied to its equalized assessment. This uniform rate is called the provincial standard mill rate and is set each year by the provincial government.

Tax abatement – Partial reduction or elimination of the property tax owed on a property.

Tax base - The amount/activity on which a tax is levied. The actual tax payable is determined by multiplying the tax rate by the tax base. The property tax base is the assessed value of property. The tax rate is the mill rate. The amount of tax payable is calculated by multiplying the tax rate or mill rate by the assessment base. For comparison, the retail sales tax base is the retail price of a taxable good or service; the personal income tax base is the total of the amounts that the income tax system recognizes as income.

Tax equity - The term for tax fairness used by tax technicians. Commonly applied principles of tax equity include horizontal equity and vertical equity. **Horizontal equity** requires that taxpayers in similar economic circumstances should pay the same amount of tax. **Vertical equity** requires that taxpayers with greater capacity to pay tax should pay more. (See also Ability-to-pay)

Tax expenditures - A term used to describe the various tax provisions used to reduce the amount of tax a taxpayer owes. Tax expenditures include special categories of exempt property, categories of property taxed at preferential rates, tax abatement and tax relief. Otherwise referred to as "tax preferences".

Tax incidence - The amount of tax actually paid by a taxpayer in relation to his or her income.

Tax rate flexibility – The ability of local governments to vary the relationship between the rate of tax on one class of property as compared to the rate of tax on another class of property. At present, for example, the residential property tax rate in Ontario must be 85% of the commercial and industrial tax rate. Tax rate flexibility might result in that percentage varying between municipalities. Effective tax rates already vary significantly in Ontario, but these differences are hidden in the assessment system.

Transfer payment - A payment made by a government to an individual or business or to another level of government (e.g. family allowance, old age pension, welfare payment).

Unrecognized Expenditure – School boards can raise additional property taxes to cover expenditures in excess of amounts recognized by the provincial government. There is no provincial equalization grant support for unrecognized expenditure.

User fee or user charge - A toll or levy on the user of a government service (e.g. licences, tolls on bridges or highways) in which the amount depends on the taxpayer's use of the service for which the fee or charge is levied.

Valuation methods – Methods used by property appraisers to determine the value of property. Three main approaches are generally taken: sales of similar properties at arms length from willing sellers to willing buyers; replacement cost; and valuation based on the rental income generated by the property.

Appendix A

Minority Report

BRINGING FAIRNESS TO PAYERS OF EDUCATION TAXES IN ONTARIO

A Minority Report of the
Property Tax Working Group of the
ONTARIO FAIR TAX COMMISSION

Paul C. Whitehead	Grant A. Andrews
Paul C. Whitehead, Ph.D.	Grant A. Andrews
P. Carroll	Donald E. Clune
Paul Carroll	Donald E. Clune
T. Mangan	Roland L. Montpellier
Terry Mangan	Roland L. Montpellier
Robert Poirier	Arthur St. Jean
Robert Poirier	Arthur St. Jean
Hugh Craigen	M. Earle McCabe
Hugh Craigen	M. Earle McCabe
	Patrick V. Slack
A.S. Meneguzzi, C.A.	Patrick V. Slack

November, 1992

The signatories to the Minority Report

MEMBERS:

Paul C. Whitehead	Chairperson, London & Middlesex County Roman Catholic Separate School Board
Grant A. Andrews	Associate Director in charge of Business Affairs, Durham Region Roman Catholic Separate School Board
Paul Carroll	Superintendent of Business & Operations, Huron County Board of Education
Donald E. Clune	Chairperson, Metropolitan Separate School Board
Terry Mangan	Deputy General Secretary, Ontario English Catholic Teachers' Association
Roland L. Montpellier	Supervisor of Revenue, Sudbury District Roman Catholic Separate School Board
Robert Poirier	Supervisor, Separate School Panel, Otawa-Carleton French Language School Board
Arthur St. Jean	Representative of Association Franco-Ontarienne des conseils d'ecoles catholiques; member Timmins District Roman Catholic Separate School Board

OBSERVERS:

Hugh Craigen	Assessment Officer, Waterloo Region Roman Catholic Separate School Board
M. Earle McCabe	Deputy Director, Ontario Separate School Trustees' Association
A. S. Meneguzzi	Retired; formerly Deputy Director of Education-Administrative Services, Assistant Secretary & Treasurer, Metropolitan Separate School Board
Patrick V. Slack	Executive Director, Ontario Separate School Trustees' Association

MINORITY REPORT

We began our work for the Property Tax Working Group of the Fair Tax Commission with high hopes. We believed that the known unfairness in the operation of the property tax system in raising revenue for school boards would be fairly and completely described in the Report of the Property Tax Working Group. We hoped that real reforms would be proposed to enhance fairness.

We seek fairness for property taxpayers and their school-age children. We believe that fairness will be achieved when property taxpayers across the province are required to make the same tax effort to raise a given unit of funds for each student.

The Majority carried a series of votes that edited the Report by deleting a number of principles and statements that would have enhanced the case for needed reforms. We are disappointed, and we are certain that assessment-poor school boards in Ontario, public and separate, will also be disappointed.

Our decision to present a Minority Report reflects our fundamental commitment to "improve fairness in [the] revenue raising requirements" of **school boards** in Ontario, in the words of the Treasurer. This commitment is not adequately reflected in the Majority Report. There is much in the Majority Report that is good and which we support, but when it comes to issues of fairness to students and to taxpayers, it lacks the courage of its expressed convictions.

We support the equity propositions for students listed in the Majority Report:

"For students:

- The overall goal of our system of education, from the perspective of the student, is to enable each student in the system to develop to his or her full potential. The overall equity objective of the system must therefore be to achieve this goal for every student. Equality of opportunity, access and quality of service are important targets in our system of education as proxies for this overall goal.
- The ability of the education system to deliver provincially mandated services to students in Ontario should not depend on the financial resources available locally to the school board responsible for their education.
- Educational equity may require that per-student spending be different across Ontario. Any funding formula must be sensitive to local needs and circumstances and must allow for the need for local boards to deliver programs that respond to the different needs and circumstances of individual students."[1]

Although we focus on property taxes in this Minority Report, **our real concern is for students. They are entitled to equality of educational opportunity**. Today in Ontario some needy students are served by breakfast and lunch clubs and by extensive social work assistance, while others are not. Some students have access to athletic facilities,

1 Majority Report , Section VI: Equity principles.

good libraries and full sets of textbooks, while others do not. Education for some students is enriched by the efforts of consultants and coordinators, but not for others.

The third equity proposition acknowledges that the needs of individual students must be met, even though it may be more costly to do so in some localities in Ontario than in others. There are many reasons for this including different economies of scale, remoteness, and local circumstances. It does not, however, support the entrenchment of existing advantages or disadvantages. Exceptionalities, cultural differences and the effects of the ravages of poverty on education must be addressed whether they occur in the inner city of Metropolitan Toronto, a small town in rural Ontario, or a village in the north.

These equity propositions all argue for equal per-pupil funding for students with similar needs. Remarkably, despite its stated support for these propositions, the majority systematically sought to expunge per pupil references that might serve to draw attention to existing inequities.[2]

There is no hiding the real differences in education that individual students experience at the local level. These are a direct result of the inequitable distribution of commercial and industrial assessment wealth in Ontario. This we show in our Minority Report.

We support the two equity propositions for taxpayers also listed in the Majority Report:

"For taxpayers:

- In principle and to the extent that it is feasible, education should be funded from revenue sources based on ability-to-pay.

- The decision to provide education through local school boards should not result in significantly different tax burdens being imposed on taxpayers in different jurisdictions for provincially mandated standards of service."[3]

---

2 Draft Report of November 16, 1992, p. 111, including last-minute amendments. For example, the underlined parts of the following text were deleted at the last minute, even though they are factually correct. We can only assume that the deletions sought to lessen the real impact of the inequities on the reader:

"In the current system, separate school boards do not have equal access (<u>measured by per-student assessment</u>) to the commercial and industrial tax base. Changes currently being phased in will increase the size of the commercial and industrial tax base accessed by separate school boards. However, it will not fully equalize that assessment <u>on a per-student basis</u>. In the system currently being phased in, the commercial and industrial tax base represented by publicly-traded corporations will be allocated to school boards proportioned to their residential assessment basis within the grant ceiling for recognized expenditures. Whatever inequities <u>on a per-student basis</u> exist in the residential sector will continue to be reflected in the revised commercial and industrial base."

3 Majority Report , Section VI: Equity principles.

It is truly said in the Majority Report that, **"the current system supports neither student equity nor taxpayer equity."**[4] The Majority Report and this Minority Report amply demonstrate that none of the equity propositions for students or for taxpayers are accomplished by the education system in Ontario today. **These equity propositions all argue for better sharing of property taxes among school boards across Ontario, an argument that the Majority was not prepared to accept.** As a result, the Majority's prescription for reform does not provide a lasting remedy for inequity.

PART I - What is the Problem?

Earlier drafts of the Majority Report accurately described the problem: "The major factor in creating differences in revenue bases among boards is commercial-industrial assessment."[5]

The education funding model is designed around two principles:

"(1) All school boards must have equitable financial resources to provide a base level of programs and services.

(2) All school boards must make the same tax effort to raise the local share of the costs of providing the base level of education programs and services."[6]

In fact, uneven concentrations of commercial and industrial assessment across the province ensure that all school boards do not make "the same tax effort to raise the local share". Examples of inequity are numerous.

The extent of the problem is depicted in part by Table 5 of the Majority Report which summarizes school board wealth per pupil across Ontario.[7] The disparities are evident. In 1990, the province's richest school board in terms of assessment, the Metropolitan Toronto School Board, enjoyed an equalized assessment per pupil, which was more than twice the average for school boards in the province.[8] By contrast, the province's poorest school board, the Kirkland Lake District Roman Catholic Separate School Board had an equalized assessment per elementary pupil, which was about 15 percent of the average for all school boards in Ontario.

4 Majority Report , Section VI: concluding section.

5 Draft Report of October 8, 1992, p.92. Draft Report of October 23, 1992, p.106. The Majority Report then also said that "This was noted in the 1978 Report of the Commission on Declining School Enrolments in Ontario (the Jackson Report) and in the 1985 Report of the Commission on the Financing of Elementary and Secondary Education in Ontario (the MacDonald Report)." The comment was excised at the Property Tax Working Group's last meeting on October 30, 1992.

6 Toward Education Finance Reform (1992), p.6.

7 Majority Report , Section VI: The level and distribution of education spending. See also Toward Education Finance Reform (A Description of the Present Education Funding Model and the Terms of Reference for Reform) (1992) at p.44-45.

8 Majority Report , Table 5.

This disparity in wealth is staggering, but it is not an anomaly, as an examination of Table 6 of the draft Majority Report of October 23, 1992 will disclose. The average wealth per pupil for school boards in Ontario balances the 16 assessment richest boards in the province against the other 122 school boards listed on Table 6. (This Table was excised from the Majority Report, but a copy is attached as Annex Table 1.)

For public boards in Metropolitan Toronto and Ottawa, the provincial standard mill rate raises **more** than the grant ceiling, indicating that the level of tax effort needed to raise the local share of the grant ceiling is less than it is elsewhere in Ontario. This unfair advantage persists and is magnified in taxation for expenditures above the grant ceiling. How can one justify boards in these jurisdictions starting millions of dollars (in one case, hundreds of millions of dollars), ahead in raising funds, because of the rich yield of the provincial standard mill rate for them.[9]

Disparities Among Public Boards

There is a wide disparity in wealth among public boards in Ontario.

Table 1 - Selected Examples: Public School Board Assessment Wealth, 1990[10]

Residential and commercial/industrial assessment wealth using Ministry of Education equalized assessment data

	Pupil counts based on total enrolment (elementary + secondary)					
Board Name	Total p/pupil	Rank	Res. p/pupil	Rank	C & I p/pupil	Rank
Metro Toronto School Brd	$433,960	1	$195,691	5	$238,269	2
Ottawa Brd of Ed	$414,355	2	$222,474	3	$191,881	3
Waterloo County Brd of Ed	$192,328	16	$107,406	37	$84,922	17
Sudbury Board of Ed	$166,207	35	$77,303	72	$88,904	14
Elgin County Brd of Ed	$145,883	51	$94,715	48	$51,168	47
Huron County Brd of Ed	$139,747	54	$112,237	33	$27,510	70
Bruce County Brd of Ed	$132,616	56	$113,630	32	$18,987	84
Central Algoma Brd of Ed	$97,251	82	$84,763	60	$11,487	109
Chapleau Brd of Ed	$63,937	116	$39,218	118	$24,719	77

9 See Annex Table 1.

10 Draft Report of October 23, 1992, p.159.

As was pointed out in the Majority Report "**Imbalances in resources available to children educated in assessment poor and assessment rich boards have highlighted the issue of equity in our education system.**"[11]

This is because assessment wealth has a direct impact on a school board's ability to tax and to spend above the grant ceiling. As the Majority Report indicates, provincial grant ceilings themselves are unrealistically low. To provide an adequate education, school boards must spend above the grant ceiling and for those expenditures must resort entirely to the local tax base.[12]

The results, in the form of different expenditure levels are depicted in Table 2 for selected examples of public boards.[13]

Table 2 - EXAMPLES ON A PER PUPIL BASIS

Based on a survey of School Board 1990 Financial Statements pertaining to the **Elementary Panel.**

School Board	Cost of Operat. Per Pupil (A.D.E.)	Amt. over R.O.E.	Recog-nized Ordinary Expend.	PerCent of Grant on R.O.E.	Amt.of Prov. Grant	Amt. Raised from Prop. Tax	Assess.Wealth Ranking C&I[14]
(1)	(2)	(3)	(4) Col(2)-(3)	(5)	(6) Col(4)x (5)	(7) Col(4)- (6)+(3)	
Metro Toronto School Brd	$6,108	$2,174	$3,934	-14.67%	($577)	$6,685	2
Ottawa Brd of Ed	$5,572	$1,892	$3,680	-7.05%	($259)	$5,831	3
Waterloo County Brd of Ed	$4,540	$750	$3,790	52.78%	$2,000	$2,540	17
Sudbury Brd of Ed	$4,752	$641	$4,111	53.35%	$2,193	$2,559	14
Huron County Brd of Ed	$3,988	$278	$3,710	65.75%	$2,439	$1,549	75
Bruce County Brd of Ed	$4,301	$682	$3,619	67.34%	$2,437	$1,864	92
Central Algoma Brd of Ed	$4,738	$354	$4,384	73.54%	$3,224	$1,514	115
Chapleau Brd of Ed	$4,751	-$63	$4,814	72.95%	$3,466	$1,285	45

11 Majority Report , Section VII: Governance.

12 Majority Report , Section VI: The level and distribution of education spending.

13 From Ministry of Education statistics.

14 From Table 6b, Draft Report of Oct. 23, 1992, p. 161

Table 2 - EXAMPLES ON A PER PUPIL BASIS

Based on a survey of School Board 1990 Financial Statements pertaining to the **Secondary Panel.**

School Board	Cost of Operat. Per Pupil (A.D.E.)	Amt. over R.O.E.	Recog-nized Ordinary Expend.	PerCent of Grant on R.O.E.	Amt. of Prov. Grant	Amt. Raised from Prop.Tax	Assess. Wealth Rank-ing C&I[15]
(1)	(2)	(3)	(4) Col(2)-(3)	(5)	(6) Col(4)x(5)	(7) Col(4)-(6)+(3)	
Metro Toronto School Brd	$7,986	$3,252	$4,734	-14.42%	($683)	$8,669	2
Ottawa Brd of Ed	$8,784	$4,496	$4,288	-27.43%	($1,176)	$9,960	3
Waterloo County Brd of Ed	$5,735	$1,398	$4,337	41.72%	$1,809	$3,926	17
Sudbury Brd of Ed	$6,142	$888	$5,254	55.68%	$2,925	$3,217	14
Huron County Brd of Ed	$5,754	$812	$4,942	57.90%	$2,861	$2,893	75
Bruce County Brd of Ed	$5,970	$1,011	$4,959	60.49%	$3,000	$2,970	92
Central Algoma Brd of Ed	$5,448	$58	$5,390	69.83%	$3,763	$1,685	115
Chapleau Brd of Ed	$8,335	-$144	$8,479	70.43%	$5,870	$2,465	45

Disparities in assessment wealth among separate boards also exist, although the range is not as great as for public boards. This is shown on Table 3, below.

15 Ibid.

Disparities between Coterminous School Boards

Disparities in assessment wealth between school boards in the same jurisdiction are also pronounced, as Table 3 shows:

Table 3 - Selected Examples: School Board Assessment Wealth, 1990

Residential and commercial/industrial assessment wealth using Ministry of Education equalized assessment data

	Pupil counts based on total enrolment (elementary + secondary)					
Board Name (Elementary Board)	Total p/pupil	Rank	Res. p/pupil	Rank	C & I p/pupil	Rank
Metro Toronto School Brd	$433,960	1	$195,691	5	$238,269	2
Metro Separate School Brd	$154,353	46	$117,313	28	$37,041	59
Ottawa Brd of Ed	$484,355	2	$222,474	3	$191,881	3
Ottawa RCSS Brd	$212,526	11	$148,924	10	$63,602	30
Waterloo County Brd of Ed	$192,328	16	$107,406	37	$84,922	17
Waterloo County RCSS Brd	$97,176	83	$77,840	71	$19,336	83
Sudbury Brd of Ed	$166,207	35	$77,303	72	$88,904	14
Sudbury RCSSB	$76,177	104	$58,082	92	$18,095	87
Elgin County Brd of Ed	$145,883	51	$94,715	48	$51,168	47
Elgin County RCSS Brd	$90,631	88	$81,316	63	$9,314	119
Huron County Brd of Ed	$139,747	54	$112,237	33	$27,510	70
Huron-Perth County RCSS Brd	$98,402	77	$88,362	53	10,039	114
Bruce County Brd of Ed	$132,616	56	$113,630	32	$18,987	84
Bruce-Grey County RCSSB	$80,571	99	$70,991	79	9,580	116
Central Algoma Brd of Ed	$97,251	82	$85,763	60	11,487	109
Sault Ste. Marie RCSS Brd	$84,806	94	$64,242	85	$20,564	81
Chapleau Brd of Ed	$63,937	116	$39,218	118	$24,719	77
* Chapleau Panet (Elem.Brd)	$55,516	120	$46,636	109	$8,880	122

Consequently, disparities in expenditure levels between school boards in the same jurisdiction also exist.

Table 4 - Coterminous School Boards - Expenditure Levels

Examples on a Per Pupil Basis

Based on a survey of School Board 1990 Financial Statements pertaining to the **Elementary Panel**.

School Board	Cost of Operat. Per Pupil (A.D.E.)	Amt. over R.O.E.	Recognized Ordinary Expend.	PerCent of Grant on R.O.E.	Amt. of Prov. Grant	Amt. Raised from Prop. Tax	Assess. Wealth Ranking C&I[16]
(1)	(2)	(3)	(4) Col(2)-(3)	(5)	(6) Col(4)x(5)	(7) Col(4)-(6)+(3)	
Metro Toronto School Brd	$6,108	$2,174	$3,934	-14.67%	($577)	$6,685	2
Metro Separate School Brd	$4,628	$719	$3,909	62.85%	$2,457	$2,171	59
Ottawa Brd of Ed	$5,572	$1,892	$3,680	-7.05%	($259)	$5,831	3
Ottawa RCSS Brd	$4,527	$720	$3,807	48.78%	$1,857	$2,670	33
Waterloo County Brd of Ed	$4,540	$750	$3,790	52.78%	$2,000	$2,540	17
Waterloo County RCSS Brd	$4,313	$634	$3,679	77.29%	$2,843	$1,470	83
Sudbury Brd of Ed	$4,752	$641	$4,111	53.35%	$2,193	$2,559	14
Sudbury District RCSS Brd	$4,455	$392	$4,063	81.02%	$3,292	$1,163	87
Huron County Brd of Ed	$3,988	$278	$3,710	65.75%	$2,439	$1,549	75
Huron-Perth County RCSS Brd	$3,930	$193	$3,737	78.95%	$2,950	$980	119
Bruce County Brd of Ed	$4,301	$682	$3,619	67.34%	$2,437	$1,864	92
Bruce-Grey County RCSS Brd	$3,795	$49	$3,746	82.60%	$3,094	$701	120
Central Algoma Brd of Ed	$4,738	$354	$4,384	73.54%	$3,224	$1,514	115
Sault Ste. Marie RCSS Brd	$4,852	$491	$4,361	77.30%	$3,371	$1,481	76
Chapleau Brd of Ed	$4,751	-$63	$4,814	72.95%	$3,466	$1,285	45
Chapleau RCSSB	$4,516	-$242	$4,758	88.12%	$3,979	$537	106
Kirkland Lake Brd of Ed	$4,943	$336	$4,607	64.56%	$2,974	$1,969	36
Kirkland Lake RCSS Brd	$4,704	$95	$4,609	92.09%	$4,244	$460	111

16 Ibid.

Table 4 - Coterminous School Boards - Expenditure Levels

Examples on a Per Pupil Basis

Based on a survey of School Board 1990 Financial Statements pertaining to the **Secondary Panel**.

School Board	Cost of Operat. Per Pupil (A.D.E.)	Amt. over R.O.E.	Recog-nized Ordinary Expend.	PerCent of Grant on R.O.E.	Amt. of Prov. Grant	Amt. Raised from Prop. Tax	Assess. Wealth Rank-ing C&I[17]
(1)	(2)	(3)	(4) Col(2)-(3)	(5)	(6) Col(4)x (5)	(7) Col(4)-(6)+(3)	
Metro Toronto School Brd	$7,986	$3,252	$4,734	-14.42%	($683)	$8,669	2
Metro Separate School Brd	$5,947	$1,282	$4,665	53.26%	$2,485	$3,462	59
Ottawa Brd of Ed	$8,784	$4,496	$4,288	-27.43%	($1,176)	$9,960	3
Ottawa RCSS Brd	$6,694	$1,764	$4,930	23.04%	$1,136	$2,258	33
Waterloo County Brd of Ed	$5,735	$1,398	$4,337	41.72%	$1,809	$3,926	17
Waterloo County RCSS Brd	$4,833	$305	$4,528	69.45%	$3,145	$1,688	83
Sudbury Brd of Ed	$6,142	$888	$5,254	55.68%	$2,925	$3,217	14
Sudbury District RCSS Brd	$5,533	$658	$4,875	75.83%	$3,697	$1,836	87
Huron County Brd of Ed	$5,754	$812	$4,942	57.90%	$2,861	$2,893	75
Huron-Perth County RCSS Brd	$5,113	-$7	$5,120	69.28%	$3,542	$1,571	119
Central Algoma Brd of Ed	$5,448	$58	$5,390	69.83%	$3,763	$1,685	115
Sault Ste. Marie RCSS Brd	$6,192	$766	$5,426	73.76%	$4,002	$2,190	76

It is possible to produce a larger sample, but the relative relationships would be the same. The result is described in the introduction that is set out in these tables to the Majority Report, but is not addressed elsewhere in it:

"[Assessment-poor] boards are faced with a choice: keep taxation rates competitive with those of coterminous boards and accept differences in service levels; or keep services at a roughly comparable level and impose higher taxes from those required by

17 Ibid.

coterminous boards. The financial squeeze is illustrated by the fact that one school board is already operating under ministry supervision while others are operating with accumulated deficits."[18]

The arid reference to "differences in service levels" refers to the actual educational experiences of students in the classroom. The differences are real. Many coterminous separate boards are unable to provide "services at a roughly comparable level".

Conclusions:

A few basic points of fundamental importance to tax equity are illustrated by these tables:

- **Resources available to school boards through local taxation vary significantly on a provincial basis.**

An earlier draft of the Majority Report was more candid than the final Report: "**...it is widely accepted that the disparities in spending per pupil in Ontario are far wider than the variations that would be expected based on needs and local conditions.**"[19] There is no doubt that the statement is true, as is the following understated observation: **"... the data would suggest that differences in access to local resources are impeding the system's ability to deliver on its equity objectives across the province."**[20] Remarkably and instructively, the Majority insisted that even this observation be removed from the text.

Table 2 notes that the Metropolitan Toronto School Board (the "MTSB") has the assessment wealth that permits it to spend $1,374 more per elementary school student, and $2,252 more per secondary school student than the Waterloo County Board of Education. The same figures respecting the Huron County Board of Education are $2,120 elementary differential and $2,232 secondary differential. These differences are neither fair nor equitable.

Disparity in wealth is not a denominational issue, as Table 5 of the Majority Report illustrates, since there are poor public boards and some relatively wealthy separate boards also. As Table 6 of the draft Majority Report of October 23, 1992, 106 of 122 school boards in Ontario have a per pupil assessment that is <u>below</u> the provincial average.

Under the current system the rich are left rich and the poor are left poor. This is not an outcome to which a progressive system of taxation should aspire.

- **Resources available through local taxation vary on a coterminous basis between public and separate boards.**

---

18 Majority Report , Introduction: Today's fiscal environment

19 Draft of October 23, 1992, p.101.

20 Majority Report, Section VI: The level and distribution of education spending.

Despite the limited benefit of coterminous pooling of the assessment of public corporations under s.113 of the Education Act, MTSB has the assessment wealth that permits it to spend $1,450 more per elementary school student and $2,039 per secondary school student more than the Metropolitan Separate School Board, its counterpart in Metropolitan Toronto. The same observation applies to the other school boards listed in Tables 3 and 4. This is neither fair nor equitable.

We believe that these differences in the ability of coterminous school boards to raise revenue is a violation of the principle of horizontal equity. Coterminous boards that levy the same mill rate ought to have similar revenue per pupil. This is not the case.

- **Disparities in resources are largely attributable to the uneven concentration of commercial and industrial assessment across the province.**

This point is perhaps best illustrated by Table 5 in the Majority Report[21], although it is also reflected in the tables in this Minority Report.

The Majority Report admits that "variations in assessment wealth are relatively greater for commercial and industrial assessment", but asserts that they are also "substantial for residential assessment."[22]

The major reason for the disparity in residential assessment is well known, but it is not explained in the Majority Report. Under the current assessment system, all directable assessment is automatically assigned to the local public board unless a person having the legal right to do so takes specific steps required by the Education Act to direct assessment to the support of the local Roman Catholic separate school board. Similarly, in being enumerated an individual is assumed to be an anglophone unless he or she specifically elects to be a member of the French-language electoral group. This default mechanism works unfairly in favour of public school boards and also in favour of English boards where French-language boards exist.

The default mechanism distorts the allocation of assessment in two ways. First, it leaves the public boards with more residential assessment than they would obtain if the rules of choice were neutral. Second, it affects the allocation of assessment attributable to public corporations; under s.113 of the Education Act this assessment is shared between coterminous school boards in the same proportion as their residential and farm assessment.

- **The ability of a school board to spend depends directly on its assessment wealth.**

This can be seen from the relative wealth rankings on Tables 2 and 3 above which, not surprisingly, support the conclusions in an earlier version of the Majority Report: "Boards that have a large assessment base per pupil are more likely to spend more than

21 Ibid.

22 Ibid.

the amount recognized by the province than boards that have a small assessment base per pupil."[23]

It is our position that there is and can be no justification for the existing disparities in the ability of school boards to generate revenue in support of their educational missions. Tax fairness will not be achieved while these disparities exist.

A number of school boards, public and separate, are now operating with deficits in breach of the Education Act, and others are close to the line. **The need for a fair solution is urgent.**

PART II - What is the Solution?

A permanent solution to the problem of the inequitable distribution of commercial and industrial assessment wealth must be effective, relatively simple and quick to implement, and should not increase the overall burden on individual taxpayers or on the provincial government.

We recommend that:

- **The province set a common mill rate for commercial and industrial assessment for education purposes;**
- **Commercial and industrial tax revenue be pooled; and**
- **The pooled funds, together with provincial grants to school boards, be distributed so as to make up the difference between residential tax revenues and a realistically established grant ceiling or recognized level of expenditure.**

In effect, we call for the province-wide pooling of commercial and industrial assessment.

During discussions about the concept of pooling, concern was expressed by some members of the Working Group that the pooled revenues could be used for other purposes by the province if they were simply added to the Consolidated Revenue Fund. Some expressed a fear that the funds would be diverted away from education to other government priorities. We would not object to the deposit of the pooled funds in an independently supervised fund to assuage these fears.

In addition, concern was expressed by municipal representatives that provincial control over commercial and industrial tax revenue for education purposes might lead to an encroachment on that assessment base, to the detriment of municipalities. At the present time, approximately 24% of the total cost of education in Ontario is funded by taxes on commercial and industrial assessment, and approximately 50% of commercial and industrial taxes are now used for education purposes. The figures have been

23 Majority Report Draft of October 8, 1992, p.90 and see Draft Report October 23, 1992, at p.104-105.

increasing. We would not object to a limitation on the amount of revenue to be raised province-wide on commercial and industrial assessment for education purposes to avoid further encroachment.

As noted above, the distribution of commercial and industrial assessment, not to mention residential assessment, is distorted by the operation of the default mechanism in the assessment system.

We recommend that all residential ratepayers be obliged to choose which school board they wish to support depending on their constitutional entitlement. In those instances where taxpayers refuse or neglect to do so, their assessment should be pooled and divided among the coterminous school boards on the basis of pupil enrolment.

In making these recommendations, we reject the position in the Majority Report, which "is opposed to direct provincial incursions into the property tax field,"[24] with respect to the taxation of commercial and industrial assessment for education purposes. Rigorous insistence on this principle would perpetuate fundamental unfairness.

- For individual students and their parents, disparities of assessment wealth are accidents of geography and history. **Access to educational entitlements that depends on access to assessment wealth should not depend on fortuity, nor should social policy perpetuate the disparities which result.**
- The commercial and industrial assessment wealth of urban areas is in large measure attributable to the work of people who do not reside within their jurisdictions. Head offices in Toronto, Ottawa and Windsor, for example, are staffed by people who live and whose children attend schools in the outlying areas. It is neither fair nor reasonable that the assessment revenue for education purposes created by their activity should be spent only in these urban areas. **Commercial and industrial assessment is truly a provincial asset and ought to be utilized equitably on a province-wide basis.**
- The economic activity of the entire province tends to funnel through the urban areas. The products of industrial concerns are marketed throughout the province and their prices include the cost of property taxes. Resources from the province are used in manufacturing these products. **The vitality of the urban areas is something to which all Ontarians contribute economically. The rest of the province should not be treated as a colony or hinterland for the urban areas to exploit especially in respect of a social good and basic entitlement such as education.**
- Much of the concentration of commercial activity that has occurred in Ontario was and is subsidized directly by the provincial government and forms part of an industrial strategy to which all of the people of Ontario contribute. **It is not fair that commercial and industrial assessment wealth, one of the byproducts of**

24 Majority Draft Report of October 8, 1992, p.113 and Draft Report of October 23, 1992, p.127.

concentration and one of its benefits, should benefit only some Ontarians and not all.

The Majority position also ignores the fact that there are a number of existing incursions that do not differ substantially from what we recommend, including:

- the provincially determined standard mill rate that school boards must levy;
- the requirements of coterminous pooling of the assessment of public corporations;
- the pooling of assessment revenue among public boards in Metropolitan Toronto which is apportioned on a per-pupil basis.

Our position is that tax revenue collected on commercial and industrial assessment for education purposes should be pooled and distributed on a province-wide basis in the interests of fairness to residential ratepayers, commercial and industrial ratepayers, school boards, and above all, to students.

PART III - Possible Objections to our Recommendations

The Majority Report concludes that the pooling of commercial and industrial assessment would not be appropriate.[25] Its purpose is to retain the status quo.

In order to analyze the Majority's position, it is necessary to sort through its rhetoric. The issue to address is rightly stated by the Majority in the following words:

"Given an objective of providing for equity [in service][26] across the province through the expenditure funding model for education, the key question on the revenue side is how the property taxes required to support that goal should be distributed among residential ratepayers across Ontario and among commercial and industrial taxpayers."[27]

In response to this issue, the Majority offers the following argument:

- "School boards cannot function effectively as institutions of local government without clear lines of accountability to the local taxpayers that support them. Commercial and industrial assessment pooling would undermine that accountability."[28]

---

25 Majority Report, Section VI: The level and distribution of education spending.

26 These bracketed words were deleted from the Draft Report at the last minute, perhaps to avoid drawing attention to the fact that where inequity directly affects the individual students is in their personal levels of service. Inequity is not an abstract concept, but a living reality.

27 Majority Report, Section VI: Education funding and taxpayer equity.

28 Majority Report, Section VI: Pooling of assessment.

- "... whatever equity benefits might be achieved through pooling are outweighed by its negative impact on local governance and accountability in education."[29]
- "The local governance issues associated with pooling for locally determined spending are, if anything, more serious than they are for province-wide pooling to support provincially mandated programs. At least with province-wide pooling, the same government is making the taxing and spending decisions. With pooling for locally determined spending, one local jurisdiction ends up raising revenue that is spent in another jurisdiction on programs that are discretionary at the local level. This goes against the traditional democratic notion that those who are responsible for spending should be responsible for the taxes to support that spending."[30]
- "The working group concluded therefore that the major questions of student equity across Ontario should be dealt with by improving the funding formula for provincially mandated services and not through pooling of commercial and industrial assessment."[31]

It can be seen that the Majority's essential argument is that the pooling of commercial and industrial assessment undermines the autonomy of school boards (this is what we interpret the reference to "governance" to imply) and their accountability.

We dispute the Majority's main argument below as it relates to autonomy and accountability, to the real "ownership" of commercial and industrial assessment, and to the need for more provincial money.

Local Autonomy and Accountability

We dispute the Majority's argument related to autonomy and accountability on three grounds:

- It significantly overstates the degree of actual financial autonomy now enjoyed by school boards that is directly related to assessment wealth. Most school boards, other than the wealthiest, have very little financial autonomy. They are subject to the imposition of the provincial standard mill rate. They are grant-dependent and must meet the conditions attached to grants, conditions which do not apply to school boards that are self-financing. The poorer the board, the higher the grant and the more constrained the board is in its ability to raise funds locally. In truth, only wealthy school boards who can spend over the grant ceiling at will can really be described as enjoying a measure of financial autonomy.

---

29 Ibid.

30 Ibid.

31 Ibid.

- Section 113 of the Education Act now requires the coterminous pooling of the assessment of public corporations. There is no evidence to suggest that the autonomy of school boards or their accountability has been detrimentally affected.
- The provincially determined standard mill rate is an existing incursion which is not substantially different from what we recommend.

We believe that an equal degree of financial autonomy ought to be available to all school boards. This can only be achieved when all school boards must make the same tax effort to raise the local share of the costs of providing educational programs and services, both below and above provincial grant ceilings. One essential ingredient to making financial autonomy equally available to all school boards is the province-wide pooling of commercial and industrial assessment for education purposes, as we recommend.

In addition, we believe that the real locus of autonomy and accountability for school boards is found in their educational activities, where they must exercise decision-making power in accordance with the will of parents and ratepayers to whom they are truly accountable.

We specifically reject the notion that access to commercial and industrial assessment is essential in order for school boards to maintain accountability. One would expect the pooling of the assessment corporations required by s.113 of the Education Act to have impaired the accountability of school boards. There is no evidence to suggest this is true. This is not surprising since it is individual ratepayers who elect school boards, and not corporations. It is to individual ratepayers that school boards are financially accountable in a real sense. **We therefore believe that, unlike commercial and industrial assessment, continued school board access to residential assessment is a necessary component of local autonomy and accountability and should not be abandoned as a source of educational financing.** It is worth noting that on the basis of residential assessment alone, coterminous school boards are much more comparable in terms of assessment wealth per pupil than they are when the marked distortion of commercial and industrial assessment is introduced. Once the distorting influence of the default mechanism is removed, as we recommend, even greater comparability would result.

On the other hand, if the Majority's argument is accepted, what will be the result in the shorter term and in the longer term?

In the shorter term poorer boards would be assisted by an increase in provincial grant funding and their levels of service would improve relative to the wealthier boards. However, since they still lack assessment resources, poorer boards would still be unable to engage in "discretionary spending" beyond the grant ceiling, unlike wealthier boards. Such spending would continue to depend on assessment wealth leading inevitably to differences in service levels for students across Ontario. In addition, there would continue to be coterminous differences, although perhaps of a less imposing nature because of increased provincial funding. Perhaps this is why the Majority

appears to abandon the goal of equity in favour of the goal of "greater equity".[32] The result would clearly not be equality of educational opportunity.

In the longer term, history has shown that grant ceilings established on a realistic basis begin to erode, forcing school boards to resort increasingly to their local assessment base. If this occurs, then in the future the crisis situation that now exists will simply be reproduced. Only wealthy boards will have the safety net provided by assessment wealth. **We believe that the future prospect of such a result is completely unacceptable and contrary to the basic principle of fairness.** The Majority Report's position on the need for change is prophetic and we believe is directly applicable:

> "One of the legacies of Ontario's failure to address problems in its system of local government and local government finance is that each successive attempt at reform is faced with a more serious set of problems than was the previous attempt. The problems don't go away with time, they get worse. Whatever the consequences may be of action to reform the system, the consequences of doing nothing now will be that much worse in the future."[33]

We agree.

The Majority's argument fails to address the Treasurer's question concerning "what changes should be made to the property tax system ... for ... school boards to improve fairness in their revenue raising requirements" with an answer based on tax principles. This avoids the central issue.

The Majority's conclusion that "there is no equitable purpose served by pooling assessment to support those mandated services that are recognized for equalization funding purposes"[34] is simply untrue when applied to the real world. However, the Majority is driven to say so by its need to pretend that assessment wealth is not really important because of provincial equalization. The Majority goes so far as to say that "the funding available to provide mandated services should be independent of the local assessment base".[35] This completely contradicts other assertions of the Majority that "the overall objectives of the education system in Ontario are best served by a continuation of the current system of shared responsibility for education between local governments and the provincial government", "The important values of shared provincial/local responsibility and local autonomy and accountability suggest that it would not be desirable to shift entirely to provincial funding for all of these services" and Recommendation 35. The contradiction only shows that the Majority's fidelity to these principles is compromised by self-interest.

---

32 Majority Report, Recommendation 5.

33 Majority Report, Section VIII: Transition

34 Majority Report, Section VI: Pooling of Assessment.

35 Ibid.

Who "Owns" Commercial and Industrial Assessments

The Majority Report argues that "with pooling for locally determined spending one local jurisdiction ends up raising revenue that is spent in another jurisdiction on programs that are discretionary at the local level. This goes against the democratic notion that those who are responsible for spending should be responsible for the taxes to support that spending."

This argument is fully met by our recommendations. Since commercial and industrial assessment is a provincial resource to be used in funding provincially mandated programs in part, there is no role for local taxation of commercial and industrial assessment. If a school board wishes to engage in discretionary spending, it will need to tax its residential assessment base. For this reason our recommendations comply with the "traditional democratic notion", and enhance real accountability.

However, we expect that the Majority would not be content with this answer. Their real assertion is that commercial and industrial assessment for education purposes is not a provincial resource but is "owned" by local school boards. We dispute this position for the reasons set out in Part II of this Minority Report.

More Provincial Money

It has often been said that the best defence is a good offence. It is therefore not surprising that the Majority identifies the need for increased provincial funding as the key to both equity and adequacy, since it allows the wealthy to keep what they have. We dispute this argument for a number of reasons:

- It is objectively difficult to argue that not enough money is being spent on education as a whole in the province of Ontario, since our total expenditure levels on education exceed those of most of our domestic and international peers. The problem is that the money is not fairly distributed.
- Excellent education is now being provided by many school boards in the province at significantly less than the expenditure levels of the wealthier boards. This is objective evidence that redistribution can be accomplished without a significant negative impact on the quality of education in Ontario.
- Additional provincial money is not available. A general solution that depends on additional provincial money, except in particular situations of special need, must be seen not only as unrealistic but also as calculated to delay essential change.
- The inequitable status quo regarding commercial and industrial assessment wealth should not be preserved even if provincial funding could be increased. Fairness in financial autonomy among school boards is an independent value worthy of pursuit for its own sake.
- Fairness can never be achieved where tax burdens are not equitable for all taxpayers. It is not appropriate to remedy such a widespread tax equity problem with an expenditure-based solution.

We believe that the Majority's argument for more provincial money proceeds on a false premise, which is that commercial and industrial assessment is a purely local resource. For the reasons mentioned above, we believe that commercial and industrial assessment must be seen as a provincial resource.

Ability to Pay

In the Majority Report, the following paragraph appears:

> "Pooling of assessment for provincially mandated services will have an impact on the total resource base for education only to the extent that pooled local taxes are used as a substitute for grants generated from provincial revenue sources. The implication of the working group's general view of the appropriate-ness of property taxes as a source of funding for education is that funding from provincial sources should be increased rather than reduced. Consequently, there is no equitable purpose served by pooling assessment to support those mandated services that are recognized for equalization funding purposes."[36]

The purpose of this paragraph in the argument made by the Majority is difficult to decipher. However, in light of the Majority's purpose of maintaining the status quo, in respect of commercial and industrial assessment, it must be interpreted as an argument that it is bad to have too much local assessment because it might reduce the dependency on grants; that dependency should be encouraged because it better reflects ability to pay than the property tax regime. (We note in passing how the cogency of this point seems to disappear for the Majority when it comes to "discretionary spending".)

Nonetheless, the argument purportedly rests on the principle that education funding should take cognizance of a taxpayer's ability to pay. Despite our support for the principle, we do not believe that it applies to commercial and industrial assessment.

- The Majority Report notes that there is a low correlation between residential property taxes and household incomes. However, even if residential property taxes were redistributed so that they took better account of the ability to pay on a household basis (an outcome we would support), such a redistribution would not solve the problem of how commercial and industrial assessment ought to be allocated.
- There is no evidence to suggest that the ability to pay principle is violated by continued reliance on commercial and industrial assessment for education purposes. On the contrary, it is fair to assume that existing concentrations of such assessment reflect market realities which, by their very nature, must take into account ability to pay in economic terms. Consequently, the deficiencies

36 Ibid.

identified with respect to the residential assessment base do not apply equally to the commercial and industrial assessment base.

- Since they are unrelated, reforms to residential property taxes that better account for ability to pay should not delay urgently required reform in the distribution of commercial and industrial taxes.

Need

In response to our recommendations some may argue that the existing distribution of revenue from commercial and industrial assessment to school boards is fair because it bears a close relationship to real needs. In other words, the rich need to stay rich. We dispute this objection on a number of grounds:

- The argument that wealthier school boards need relatively more money because their clients have come to expect more services or because their clients need more services in light of local circumstances is refuted by the disparities in wealth between coterminous school boards. For example, public and separate boards in Metropolitan Toronto must both address the needs of inner-city children, but must do so on substantially different assessment bases. Indeed, the fact that this argument is not referred to in the Majority Report is, in our view, a tacit admission that it will not bear close scrutiny. The argument is sometimes made that separate boards do not shoulder their fair share of higher cost programs. There is evidence to the contrary, especially in view of the separate system's leadership in integrated special education.
- There are urban areas in Ontario, such as Ottawa, that enjoy assessment wealth and similar expenditure levels, but do not have the same social problems as Metropolitan Toronto.
- It is a false assumption that similar needs do not occur elsewhere in Ontario, particularly in places hard hit by the recession such as St. Catharines or Sault Ste. Marie, that are not, relatively speaking, wealthy communities. **We believe that additional student needs are entitled to be addressed fairly across the province wherever they occur.**

  For these reasons, it is our position that the existing distribution of commercial and industrial assessment wealth cannot be justified as a good or fair proxy for the existence of need and as an excuse to maintain the status quo.
- Finally, factors within the grant ceilings ought to be sufficiently sensitive to detect and account for differences in needs among school boards, having regard to their population differences and changing local circumstances. Addressing special needs via the expenditure side is a more efficient and more equitable use of public funds.

Conclusions

In this part of the Minority Report we have refuted objections to our recommendations both as they are found in the Majority Report and as they might be made by others. We believe that each of the objections can in fact be reversed to support our recommendations. We believe that the principles of local autonomy and accountability would in fact be enhanced by our recommendations. School boards would enjoy equivalent autonomy in financial terms, and would experience better accountability to the users of the system who are found exclusively among residential ratepayers.

We believe that a proper view of expenditures now made in education leads to the inevitable conclusion that it is not more provincial money that is needed to restore equity to the education funding system, but a better distribution of the amounts now spent, both provincially and locally. If additional funds are required from the province, the amount required would be more modest under our recommendations than under the recommendations proposed by the Majority.

We believe that the argument based on ability to pay supports the redistribution of commercial and industrial assessment wealth.

Finally, we believe that an argument based on need leads inevitably to the conclusion that assessment wealth ought to be fairly and equitably distributed so that the needs of all students across Ontario can be met, not just those who are fortunate enough to be resident pupils of wealthy schools boards.

PART IV - Transitional Measures

Our recommendations would have an impact on school boards that are now rich in commercial and industrial assessment. Since expenditures depend on tax revenues in large measure, our recommendations would reduce the ability of these school boards to spend. We recognize the real trauma that would be associated with an immediate reduction in expenditure levels.

We therefore agree in general with the Majority Report's observations on the need for transitional mechanisms and the issues which must be addressed by such mechanisms.[37] However, the focus must be broadened from the criterion of "sudden substantial property tax shock to the community" (which would not be the impact of the recommendations we propose), to the impact on the expenditure levels of school boards.

Transitional measures ought to reflect the following principles:

- **Equity should not be postponed.**

---

37 Majority Report, SectionVIII: Transition.

Transitional measures should not be financed on the backs of assessment-poor school boards. The six-year transition to coterminous pooling of the assessment of public corporations required by s.113 of the Education Act and its Regulation only helped further imperil the financial health of many school boards. The same mistake should not be made twice.

- **Transitional measures must be efficient.**

By this we mean that transitional measures should not be overly generous to school boards that have enjoyed an inequitable advantage. Transitional measures should take account of the existing reserves of school boards, which are no more than the crystallized results of inequity in the assessment system. Similarly, transitional measures should account for windfalls coming to school boards possessing assessment wealth above the provincial average that result from the implementation of market value assessment. This would be an appropriate use of an opportunity "for impacts to offset each other", in the words of the Majority Report.[38] There is no point in making the already wealthy yet wealthier.

- **There must be a remedy for assessment-poor boards in financial difficulty.**

Transitional measures must address the fact that the reforms we recommend would not provide enough assistance quickly enough to school boards in dire financial difficulty. The existing assessment system has produced casualties among school boards. For this reason direct ad hoc financial assistance from the province is necessary in order to avoid applications to the Ontario Municipal Board under the Municipal Affairs Act, R.S.O. 1990 c.M.46 (receivership).

38 Ibid.

PART V - Conclusions

Our goal, as we said at the outset, is to seek fairness for property taxpayers, which will be achieved when property taxpayers across the province are required to make the same tax effort to raise a given unit of funds for each student.

In our view, this is the meaning and purpose of equalization, a meaning and purpose that has never been fully realized. That principle is well expressed in the Majority Report:

> ... governments should have similar capacities to provide services, regardless of their local economic bases. The objective implicitly is to ensure than an individual should not be deprived of public services simply because he or she lives in a jurisdiction that lacks the fiscal capacity to provide those services.[39]

The time to do so is now. The situation for many school boards is urgent and critical.

To recapitulate, our recommendations are as follows:

We recommend that:

- **The province set a common mill rate for commercial and industrial assessment for education purposes;**
- **Commercial and industrial tax revenue be pooled; and**
- **The pooled funds, together with provincial grants to school boards, be distributed so as to make up the difference between residential tax revenues and a realistically established grant ceiling or recognized level of expenditure.**

We recommend that all residential ratepayers be obliged to choose which school board they wish to support depending on their constitutional entitlement. In those instances where taxpayers refuse or neglect to do so, their assessment should be pooled and divided among the coterminous school boards on the basis of pupil enrolment.

39 Majority Report, Section V: Equalization.

Annex Table 1

Board Wealth Index Ignoring Secondary School Students

RANK	BOARD NAME	1990 EQUALIZED ASSESSMENT PER ELEMENTARY PUPIL ($)	WEALTH INDEX	TAX YIELD OF ONE EQUALIZED MILL	MILL RATE REQUIRED TO RAISE $100 PER ELEMENTARY PUPIL
1	KIRKLAND LAKE DISTRICT R C S S B	50,644	0.156	51	1.961
2	FORT FRANCES RNY RIVER DIST R C S S B	64,832	0.200	65	1.538
3	MICHIPICOTEN DISTRICT R C S S B	67,791	0.209	68	1.471
4	NORTH SHORE DISTRICT R C S S B	72,412	0.224	72	1.389
5	CHAPLEAU PANET CAVERLY R C S S B	76,534	0.236	77	1.299
6	COCHRANE IROQ FALLS DIST R C S S B	77,717	0.240	78	1.282
7	KENORA DISTRICT R C S S B	81,815	0.253	82	1.220
8	GERALDTON DISTRICT R C S S B	82,166	0.254	82	1.220
9	TIMISKAMING DISTRICT R C S S B	85,931	0.265	86	1.163
10	DRYDEN DIST R C S S B	91,216	0.282	91	1.099
11	LANARK LEEDS GRNVILLE CTY R C S S B	93,811	0.290	94	1.064
12	NORTH OF SUPERIOR R C S S B	98,962	0.305	99	1.010
13	HASTINGS PRINCE EDWD CTY R C S S B	102,553	0.317	103	0.971
14	P BORO VIC NRTHM NEWCASTLE R C S S B	106,241	0.328	106	0.943
15	NIPISSING DISTRICT R C S S B	107,724	0.333	108	0.926
16	RENFREW COUNTY R C S S B	108,530	0.335	109	0.917
17	HEARST DISTRICT R C S S B	108,668	0.335	109	0.917
18	TIMMINS DISTRICT R C S S B	109,311	0.337	109	0.917
19	STORMNT DNDAS GLNGRRY CTY R C S S B	110,576	0.341	111	0.901
20	BRUCE GREY COUNTY R C S S B	112,588	0.348	113	0.885
21	LAMBTON COUNTY R C S S B	115,981	0.358	116	0.862
22	PRESCOTT RUSSELL CTY R C S S B	118,639	0.366	119	0.840
23	KAPUSKASING DISTRICT R C S S B	119,677	0.369	120	0.833
24	SUDBURY DISTRICT R C S S B	121,794	0.376	122	0.820
25	BRANT COUNTY R C S S B	121,682	0.376	122	0.820
26	SIMCOE COUNTY R C S S B	121,719	0.376	122	0.820
27	DURHAM REGION R C S S B	123,958	0.383	124	0.806
28	SAULT STE MARIE DISTRICT R C S S B	131,189	0.405	131	0.763
29	KENT COUNTY R C S S B	131,477	0.406	131	0.763
30	OXFORD COUNTY R C S S B	132,910	0.410	133	0.752
31	ESSEX COUNTY R C S S B	134,943	0.417	135	0.741
32	HURON PERTH COUNTY R C S S B	136,142	0.420	136	0.735
33	ELGIN COUNTY R C S S B	136,698	0.422	137	0.730
34	FRNTNAC LNNX ADNGTON CTY R C S S B	140,910	0.435	141	0.709
35	LONDON MIDDLESEX COUNTY R C S S B	143,018	0.441	143	0.699
36	CARLETON R C S S B	144,444	0.446	144	0.694
37	HORNEPAYNE B OF E	145,103	0.448	145	0.690
38	WATERLOO COUNTY R C S S B	145,902	0.450	146	0.685
39	WINDSOR R C S S B	147,774	0.456	148	0.676
40	DUFFERIN PEEL R C S S B	150,189	0.464	150	0.667
41	LAKEHEAD DISTRICT R C S S B	150,993	0.466	151	0.662

42	WELLINGTON COUNTY R C S S B	154,015	0.475	154	0.649
43	HAMILTON WENTWORTH R C S S B	154,528	0.477	155	0.645
44	WELLAND COUNTY R.C.S.S.B.	154,714	0.478	155	0.645
45	LINCOLN COUNTY R C S S B	159,955	0.494	160	0.625
46	OTTAWA/CARLETON FRENCH RCSSB	160,541	0.496	161	0.621
47	HALDIMAND NORFOLK COUNTY R C S S B	167,573	0.517	168	0.595
48	CENTRAL ALGOMA B OF E	169,671	0.524	170	0.588
49	HALTON R C S S B	172,721	0.533	173	0.578
50	CHAPLEAU B OF E	173,906	0.537	174	0.575
51	OTTAWA/CARLETON FRENCH PUBLIC	178,297	0.550	178	0.562
52	EAST PARRY SOUND B OF E	181,888	0.561	182	0.549
53	PRESCOTT RUSSELL COUNTY B OF E	183,568	0.567	184	0.543
54	RED LAKE B OF E	183,979	0.568	184	0.543
55	LENNOX ADDINGTON COUNTY B OF E	193,747	0.598	194	0.515
56	YORK REGION R C S S B	205,151	0.633	205	0.488
57	LANARK COUNTY B OF E	208,450	0.643	208	0.481
58	FORT FRANCES RAINY RIVER B OF E	209,022	0.645	209	0.478
59	BRUCE COUNTY B OF E	210,082	0.648	210	0.476
60	ATIKOKAN B OF E	211,799	0.654	212	0.472
61	NORTH SHORE B OF E	221,037	0.682	221	0.452
62	HURON COUNTY B OF E	221,073	0.682	221	0.452
63	HASTINGS COUNTY B OF E	221,271	0.683	221	0.452
64	PRINCE EDWARD COUNTY B OF E	224,445	0.693	224	0.446
65	GERALTON B OF E	224,740	0.694	225	0.444
66	NIPISSING B OF E	225,131	0.695	225	0.444
67	KIRKLAND LAKE B OF E	228,070	0.704	228	0.439
68	ELGIN COUNTY B OF E	230,078	0.710	230	0.435
69	RENFREW COUNTY B OF E	233,381	0.720	233	0.429
70	VICTORIA COUNTY B OF E	236,272	0.729	236	0.424
71	METROPOLITAN SEP. SCH. B.	237,943	0.734	238	0.420
72	TIMISKAMING B OF E	238,626	0.737	239	0.418
73	MANITOULIN B OF E	240,628	0.743	241	0.415
74	DUFFERIN COUNTY B OF E	241,195	0.745	241	0.415
75	ESPANOLA B OF E	241,552	0.746	242	0.413
76	NORFOLK B OF E	241,624	0.746	242	0.413
77	NORTHUMBERLAND NEWCASTLE CTY B OF E	242,510	0.749	243	0.412
78	GREY COUNTY B OF E	248,671	0.768	249	0.402
79	COCHRANE IROQUOIS FALLS B OF E	251,596	0.777	252	0.397
80	NIPIGON RED ROCK B OF E	252,784	0.780	253	0.395
81	BRANT COUNTY B OF E	253,173	0.782	253	0.395
82	PERTH COUNTY B OF E	255,301	0.788	255	0.392
83	LEEDS GRENVILLE COUNTY B OF E	269,825	0.833	270	0.370
84	LAKE SUPERIOR B OF E	273,703	0.845	274	0.365
85	KENT COUNTY B OF E	279,816	0.864	280	0.357
86	CARLETON B OF E	282,280	0.871	282	0.355
87	HALDIMAND COUNTY B OF E	282,318	0.871	282	0.355
88	DRYDEN B OF E	284,228	0.877	284	0.352
89	WELLINGTON COUNTY B OF E	287,039	0.886	287	0.348
90	OXFORD COUNTY B OF E	290,006	0.895	290	0.345

91	MIDDLESEX COUNTY B OF E	290,291	0.896	290	0.345
92	TIMMINS B OF E	292,765	0.904	293	0.341
93	NIAGARA SOUTH B OF E	295,687	0.913	296	0.338
94	SAULT STE MARIE B OF E	296,079	0.914	296	0.338
95	PETERBOROUGH COUNTY B OF E	296,163	0.914	296	0.338
96	DURHAM B OF E	296,452	0.915	296	0.338
97	SUDBURY B OF E	298,645	0.922	299	0.334
98	ESSEX COUNTY B OF E	299,740	0.925	300	0.333
99	LAKEHEAD B OF E	302,801	0.935	303	0.330
100	STORMNT DNDAS GLNGRRY CTY B OF E	303,339	0.936	303	0.330
101	WATERLOO COUNTY B OF E	303,640	0.937	304	0.329
102	LINCOLN COUNTY B OF E	306,278	0.945	306	0.327
103	LONDON B OF E	306,610	0.946	307	0.326
104	FRONTENAC COUNTY B OF E	310,656	0.959	311	0.322
105	SIMCOE COUNTY B OF E	315,768	0.975	316	0.316
106	WENTWORTH COUNTY B OF E	316,863	0.978	317	0.315
	PROVINCIAL AVERAGE	**324,032**	**1.000**	**325**	**0.325**
107	OTTAWA R C S S B	329,215	1.016	329	0.304
108	LAMBTON COUNTY B OF E	343,214	1.059	343	0.292
109	HAMILTON B OF E	344,545	1.064	345	0.290
110	MICHIPICOTEN B OF E	358,571	1.107	359	0.279
111	KENORA B OF E	364,840	1.126	365	0.274
112	WEST PARRY SOUND B OF E	379,932	1.173	380	0.263
113	HALTON B OF E	416,946	1.287	417	0.240
114	WINDSOR B OF E	424,027	1.309	424	0.236
115	MUSKOKA B OF E	424,665	1.311	425	0.235
116	HALIBURTON COUNTY B OF E	438,138	1.352	438	0.228
117	PEEL B OF E	465,162	1.436	465	0.215
118	HEARST B OF E	476,966	1.472	477	0.210
119	YORK COUNTY B OF E	487,087	1.504	487	0.205
120	KAPUSKASING B OF E	562,651	1.737	563	0.178
121	OTTAWA B OF E	687,774	2.123	688	0.145
122	METRO TORONTO B OF E	734,863	2.268	735	0.136

Appendix B

List of Reports to the Working Group by Working Group Panels:

- Assessment Panel Report
- Appropriate Revenue Source Report
  ("Clean the Mirrors")
- Jurisdiction Panel Reports:
  - Jurisdiction
  - Taxing Powers
  - Economic Development

Appendix C

List of Formal Submissions

* Duplicate entries denote subsequent submissions received from the same person or organization.

1. Mr. George Carr

2. Mr. David Hutchinson

3. **Association des Distillateurs Canadiens/ Association of Canadian Distillers**
K.M. Campbell

4. **Association of Municipal Clerks & Treasurers of Ontario**
Ms. Joyce Foster

5. **Board of Trade of Metropolitan Toronto**
Mr. Donald King, FCA

6. **Canadian Bankers Association**
Mr. Allan R. Cooper

7. **Canadian Chemical Producers' Association**
Mr. D.W. Goffin

8. **Canadian Crafts Council**
Mr. Peter Weinrich

9. **Canadian Crafts Council**
Mr. Peter Weinrich

10. **Canadian Institute of Public Real Estate Companies**
Mr. James R. Bullock

11. **Canadian Institute of Public Real Estate Companies (CIPREC)**
Mr. Ronald A. Daniel

12. **Canadian Property Tax Association**
Mr. Alan Duncan

13. **Canadian Property Tax Association**
Mr. Alan Duncan

14. **Carrying Place Property Owners' Association**
G. A. Henderson

15. **City of Peterborough**
Mr. Malcolm G. McCarthy

16. **City of Stoney Creek**
Mr. Frank Carrocci, CGA, AMCT

17. **City of Toronto, City Hall**
Mr. John S. Woods, CA

18. **Community Services Council**
Ms. Barbara J. Moorhead

19. **County of Peterborough**
Mrs. Doris Brick

20. **CP Rail System**
Mr. G.R. Mackie

21. **Dufferin-Peel Roman Catholic Separate School Board**
Mr. Arthur R. Steffler

22. **Falconbridge Limited**
Mr. E.A. Seth

23. **Federal Superannuates National Association**
Mr. Percy Bateson

24. **Federation of Ontario Cottagers' Associations Inc.**
Mr. Barry Mitchell, President

25. **Frontenac Condominium Corporation**
Mr. James Peck

26. **Grey County Board of Education**
Mr. Michael J. McKenna

27. **Hamilton-Wentworth Roman Catholic Separate School Board**
Mr. Jerry G. Ponikvar

28. **Inco Limited**
Mr. J.W. Ashcroft

29. **Institute of Municipal Assessors of Ontario**
K.F. McGillivray

30. **Island View Drive and Area Ratepayers' Association**
Mr. Harold E. Fry

31. **Lake of the Woods District Property Owners' Association Inc.**
D.H. Magnus

32. **Lake Rosseau North Association**
Mr. Paul White

33. **Legislative Assembly**
Ms. Anne Swarbrick

34. **Lytton Park Residents' Organization Inc.**
D.J. Stewart

35. **Municipality of Metropolitan Toronto**
Mr. David J. Hipgrave

36. **Muskoka Board of Education**
Ms. Marilyn Rowe

37. **Muskoka Lakes Association**
Mr. Robert Hodgins

38. **National Farmers Union**
Mr. John Dowling

39. **Ontario Association of Children's Aid Societies**
Ms. Mary A. McConville

40. **Ontario Cable Telecommunications Association**
Mr. Roy O'Brien

41. **Ontario Chamber of Commerce**
Mr. J.G. Carnegie

42. **Ontario English Catholic Teachers' Association**
Mr. Greg Pollock

43. **Ontario Federation of Agriculture**
Mr. Dave Older

44. **Ontario Federation of Agriculture**
Mr. Dave Older

45. **Ontario Mining Association**
Mr. Peter McBride

46. **Ontario Public School Boards' Association**
Ms. Paula Dunning

47. **Ontario Public School Boards' Association**
Mr. Ernie Checkeris

48. **Ontario Public School Teachers' Federation**
Mr. Gene Lewis

49. **Ontario Public Supervisory Officials' Association**
Mr. Rae Stoness

50. **Ontario Secondary School Teachers' Federation**
Mr. Larry French

51. **Ontario Secondary School Teachers' Federation**

52. **Ontario Separate School Trustees' Association**
Mr. Patrick Slack

53. **Ottawa Board of Education**
Mr. W.H. Bird

54. **Ottawa Carleton Board of Trade**
Ms. Lorraine Flaherty

55. **Ottawa Roman Catholic Separate School Board**
Mr. Wayne E. Bishop

56. **Parking Authority of Toronto**
Mr. Norris P. Zucchet

57. **Peat Marwick Stevenson & Kellogg**
Mr. Donald L. King

58. **Peterborough Two Tier Property Tax Committee**
Mr. Eldon P. Ray

59. **Peterborough Two Tier Property Tax Committee**
Mr. Malcolm McCarthy

60. **Queen's University**
Mr. R. D. Fraser

61. **Regional Chairmen of Ontario**
Mr. Peter D. Pomeroy

62. **Regional Municipality of Haldimand-Norfolk**
Mr. Keith Richardson

63. **Sherwood Jones & Burns Ratepayers Association**
Mr. Richard Robyn

64. **Sudbury English Catholic Secondary Teachers' Association**
Mr. Roland Muzzatti

65. **Toronto Board of Education**
Ms. Joan M. Green

66. **Township of Howard**
Mr. James A. Campbell

67. **Waterloo County Board of Education**
A. Ewasko

68. **York Mills Ratepayers Association Inc.**
Mr. D'Arcy Macdonald

Appendix D

List of Non-Staff Presentations to the Working Group and Panels

List of Presentations

Date:	Presentations to the Working Group:	
Feb 10	Presentation: Presented by:	Appropriate Revenue Sources: A new mix Richard Gilbert, Canadian Urban Institute
March 5	Presentation: Presented by:	Financing Local Government: Principles and Issues John Bossons, University of Toronto Dr. Enid Slack, Enid Slack Consulting Inc.
March 5	Presentation: Presented by:	Business Tax: The current Controversy Barry Remington, Canadian Property Tax Association Inc.
April 10	Presentation: Presented by:	Economic Development Models Jeremy Fox , Fox Jones & Associates Dale Martin, Martin & Associates
April 10	Presentation: Presented by:	Issues in Infrastructure Financing Richard Gilbert Canadian Urban Institute
April 10	Presentation: Presented by:	Infrastructure Financing : Review of Ongoing and Recent Work in Infrastructure Financing Don Stevenson, Canadian Urban Institute
May 7	Presentation: Presented by:	US. Jurisdictions Steve Lawton, Ontario Institute for Studies in Education Tod Cowan, Schelesinger & Associates

Date:	Presentations to the Assessment Panel:	
March 20	Presentation: Presented by:	Fairness and Market Value Mr. Ed Gradu, Q.C.
March 20	Presentation: Presented by:	Reassessment Cathy Farr, Brant-Haldimand Assessment Commissioner
April 24	Presentation: Presented by:	Perspectives on Property Tax Reform Al Cooper, Canadian Bankers Association
April 24	Presentation: Presented by:	Appraisal J. Ellen - Appraiser
April 24	Presentation: Presented by:	Exemptions Calvin Barrett, Municipality of Metropolitan Toronto Vic Melski, The City of Ottawa

April 24	Presentation: Presented by:	Reassessment in Ontario Harry Bassken, Senior Citizen
May 8	Presentation: Presented by:	Submission by the Ontario Cable Television Association Ray O'Brien, Ontario Cable Television Association
May 8	Presentation: Presented by:	Valuation Methods Used to Assess: Railways, Roadways, and Rights of Way, Transmission Pipelines, Telephone and Telegraph Properties Robert Cushing, Ministry of Revenue Tony Barber, Appraisal Institute of Canada
May 8	Presentation: Presented by:	Gross Receipts Tax of Telephone Companies Ray LaCroix, Bell Canada C. Campbell, Bell Canada
May 8	Presentation: Presented by:	Railways, Roadways and Right of Ways Ron Ditchburn, CN Real Estate
May 8	Presentation: Presented by:	Pipeline Assessment Mike McKellar, Ontario Natural Gas Association
May 8	Presentation: Presented by:	Comments on Current Property Assessment and Taxation in Ontario Tony Barber, Appraisal Institute of Canada
May 22	Presentation: Presented by:	Ministry of Revenue CD ROM and OASYS Chris Lopes, Ministry of Revenue
May 22	Presentation: Presented by:	Underground Mining Facilities Al Morrill, Falconbridge Ltd.
May 22	Presentation: Presented by:	Submission from INCO to the FTC Martie DeCorby
May 22	Presentation: Presented by:	Federal Grants-in-lieu of taxes Ken Westra
June 1	Presentation: Presented by:	Metro Toronto's Proposal for Market Value Assessment - City of Toronto View Audrey Birt and Paul Wealleans, City of Toronto
July 22	Presentation: Presented by:	Metro Toronto Dale Richmond, Metro Toronto

Date:	**Presentations to the Appropriate Revenue Sources Panel:**	
March 25	Presentation: Presented by:	Fairness and Taxation John Bossons, University of Toronto

Appendix E

Issues Referred by the Government: Letters of Referral

Municipal Affairs
Affaires municipales
Ontario

March 21, 1991

Dear Colleague:

Enclosed please find the Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship. It is the product of an independent advisory committee which for the last two years has been charged with examining the whole of the provincial-municipal financial relationship.

Its recommendations focus on two key areas: a redefinition of roles and responsibilities between the Province and municipalities, i.e. disentanglement, and ideas for improving municipal revenue raising capabilities. I plan to refer the recommendations and ideas which deal with revenue raising to the Fair Tax Commission. This Commission was recently established by my colleague the Honourable Floyd Laughren, to review Ontario's tax system with a view to making it fairer. I believe it will be an excellent vehicle through which to discuss revenue raising aspects of the report.

The Government is committed to disentanglement, possibly in a broader context than discussed in the report. I hope to announce a process through which disentanglement can be pursued in the near future.

I believe that the Committee has done a commendable job and that their recommendations will be an excellent source of ideas toward the development of a new provincial-municipal financial relationship.

Sincerely,

Dave Cooke
Minister
M.P.P., Windsor-Riverside

Enclosure

Ontario

ffice of the
inister
ureau du
inistre

Ministry of Municipal Affairs

Ministère des Affaires municipales

777 Bay Street
Toronto, Ontario
M5G 2E5
(416)585-7000

777, rue Bay
Toronto (Ontario)
M5G 2E5
(416)585-7000

December 12, 1991

Mr. Paul E. Pinnington
President
Ontario Natural Gas Association
77 Bloor Street West
Suite 1104
Toronto, Ontario
M5S 1M2

Dear Mr. Pinnington:

I am writing with regard to your letter of November 8, 1991 regarding the Ontario Natural Gas Association's review of the "Report of the Advisory Committee to the Minister of Municipal Affairs on the Provincial-Municipal Financial Relationship". I would like to express my appreciation for the effort taken in reviewing the Report.

I have asked the Fair Tax Commission to also review the Report's recommendations relating to the local government sector's revenue raising capacity. I note that you have provided a copy of your comments to the Research Co-ordinator of the Commission's Property Tax Working Group. I am certain that the views of your Association will be of assistance to the group as their work progresses and your Association will be apprised of the Working Group's views on these subjects as these are developed.

RECEIVED
JAN 09 1992
PROPERTY TAX DEPT.

Thank you for your interest in this matter.

Sincerely,

Dave Cooke
Minister
M.P.P., Windsor-Riverside

ONGA
DEC 24 1991

Ontario

Office of the Minister

Bureau du ministre

Ministry of Municipal Affairs

Ministère des Affaires municipales

777 Bay Street
Toronto, Ontario
M5G 2E5
(416)585-7000

777, rue Bay
Toronto (Ontario)
M5G 2E5
(416)585-7000

January 8, 1992

Ms Monica Townson
Chair
Fair Tax Commission
1075 Bay Street
6th Floor
Toronto, Ontario
M5S 2B1

Dear Ms Townsend:

I am writing to ask the Fair Tax Commission to examine the issue of payments-in-lieu of property taxes (PIL) to municipalities.

As you may be aware, there are two methods for determining PIL's. For most properties, the amount is determined using the assessment on the property and the local mill rate. However, for hospitals, correctional facilities, universities and other institutions, the payment is based on rated capacity. For example, for a correctional facility, the municipality receives $75.00 per inmate. Municipalities believe that the resultant payment is lower than a mill rate/assessment based payment would be and lower than the costs of providing services.

This is an issue which affects many municipalities across Ontario. It was most recently brought to my attention by the City of Kingston which has a heavy concentration of institutional properties.

Thank you very much for your consideration of this issue.

Sincerely,

Dale

Dave Cooke
Minister
M.P.P., Windsor-Riverside

RECEIVED
JAN 15 1992
FAIR TAX COMMISSION

Ontario

Office of the Treasurer of Ontario

Cabinet du Trésorier de l'Ontario

Ministry of Treasury and Economics

Ministère du Trésor et de l'Économie

Frost Building South
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 325-0400
Fax (416) 325-0374

Édifice Frost sud
Queen's Park
Toronto (Ontario)
M7A 1Y7
(416) 325-0400
Télécopieur (416) 325-0374

May 26, 1992

Ms. Monica Townson
Chair
Fair Tax Commission
1075 Bay Street
6th Floor
Toronto, Ontario
M5S 2B1

Dear Ms. Townson,

Treasury Board recently considered the recommendations of a policy and program expenditure review concerning the property assessment services provided to municipalities by the Ministry of Revenue. One of the options explored by the review team was reform and possible elimination of the separate local tax on business occupants. The proposal was made in the interests of administrative efficiency for the province and municipalities.

Changes to the current "Business Assessment" and tax on business occupants could have significant taxation policy implications. Recognizing this, the program review team recommended that the issue be referred to the Fair Tax Commission for consideration.

I understand that the tax on business occupants is already being examined by the Property Tax Working Group panel on property assessment. I would simply like to ensure that this issue is addressed specifically in consultations and in the Working Group report in the fall. Relevant questions include the following:

> Is the application of a separate assessment and tax on business occupants a fair method of local taxation?
>
> What alternatives are there for raising local government revenues from business operations?
>
> What effect would replacement of this tax with increased assessment on commercial and industrial real estate have on fairness?

If this request poses any serious difficulties for the Commission or the Working Group, please let me know. Your assistance in this matter is greatly appreciated.

Yours truly,

Floyd Laughren

Floyd Laughren
Treasurer of Ontario

copy: The Honourable Shelley Wark-Martyn
Minister of Revenue

Mr. A. Dharmalingam
Chair, Property Tax Working Group
Fair Tax Commission

Ontario

Office of the Treasurer of Ontario

Cabinet du Trésorier de l'Ontario

Ministry of Treasury and Economics

Ministère du Trésor et de l'Économie

Frost Building South
Queen's Park
Toronto, Ontario
M7A 1Y7
(416) 325-0400
Fax (416) 325-0374

Édifice Frost sud
Queen's Park
Toronto (Ontario)
M7A 1Y7
(416) 325-0400
Télécopieur (416) 325-0374

RECEIVED
AUG 1 9 1992
FAIR TAX COMMISSION

Ms. Monica Townson
Chair
Fair Tax Commission
6th Floor
1075 Bay Street
Toronto, Ontario
M5S 2B1

Dear Ms. Townson,

Treasury Board recently considered the recommendations of a Policy and Program Expenditure Review concerning the Farm Tax Rebate Program of the Ministry of Agriculture and Food (OMAF).

Through the Farm Tax Rebate Program, OMAF rebates 75% of property taxes paid by farmers with a minimum production of $7,000 and excluding the farm residence and one acre of land. The review was initiated to attempt to lower the cost of this program, which grows in relation to mill rate increases.

The review recommended that no structural changes be made to this program until the Fair Tax Commission completes its report on property taxation.

Both OMAF and the farm community feel that farms pay a disproportionate amount of property tax and in fact, the Farm Tax Rebate Program began in 1970 as an interim measure pending property tax reform.

Would it be possible for Fair Tax Commission, as part of its review of property taxation, to consider the issue of farm property taxation and the Farm Tax Rebate Program.

.../2

If this poses any serious difficulties for the Commission or the Working Group, please let me know. Your assistance in this matter is greatly appreciated. If your staff require information regarding the Farm Tax Rebate Program, they should contact Rolly Stroeter (326-3493), Director of the Farm Assistance Programs Branch at OMAF.

Yours truly,

Floyd Laughren

Floyd Laughren
Treasurer of Ontario

copy: The Honourable Elmer Buchanan
Minister of Agriculture and Food

Appendix F

Sources of Data

Sources of Data for Charts and Tables:

CHARTS

Chart 1	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 2	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 3	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ministry of Education, Administrative Data
Chart 4	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 5	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 6	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 7	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ontario Budgets; and Consumer Price Index, Statistics Canada
Chart 8	Fair Tax Commission special tabulations using Statistics Canada, Social Policy Simulation Database and Model 1988 data adjusted to 1991 values
Chart 9	Fair Tax Commission special tabulations using Statistics Canada, Social Policy Simulation Database and Model 1988 data adjusted to 1991 values
Chart 9a	Fair Tax Commission special tabulations using Statistics Canada, Social Policy Simulation Database and Model 1988 data adjusted to 1991 values
Chart 10a	Fair Tax Commission - income tax and assessment record matching project; Revenue Canada 1990 T1 Provincial Data and Ontario Ministry of Revenue; Ontario Assessment System
Chart 10b	Fair Tax Commission - income tax and assessment record matching project; Revenue Canada 1990 T1 Provincial Data and Ontario Ministry of Revenue; Ontario Assessment System
Chart 11	Ernst & Young, The Wealth Report Vols. 1 & 2 (Toronto: Ernst & Young Management Consultants, 1990)

Chart 12	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 13	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 14	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 15	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 16	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 17	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 18	Commercial Concentration Tax Register, Ministry of Revenue, 1992
Chart 19	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 20	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 21	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 22	Ministry of Education, Administrative Data
Chart 23	Ministry of Education, Administrative Data
Chart 24	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ministry of Education, Administrative Data
Chart 25	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ministry of Education, Administrative Data
Chart 26	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); Ministry of Education, Administrative Data; and 1986 Census
Chart 27	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); Ministry of Education, Administrative Data; and 1986 Census
Chart 28	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ministry of Education, Administrative Data

Chart 28	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and Ministry of Education, Administrative Data
Chart 30	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Chart 31	Ministry of Education, Administrative Data
Chart 32	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)

TABLES

Table 1	Fair Tax Commission - Income tax and assessment record matching project; Revenue Canada 1990 T1 Provincial Data and Ontario Ministry of Revenue; Ontario Assessment System
Table 1a	Fair Tax Commission - Income tax and assessment record matching project; Revenue Canada 1990 T1 Provincial Data and Ontario Ministry of Revenue; Ontario Assessment System
Table 2	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Table 3	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS)
Table 4	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); and 1986 Census
Table 5	Ministry of Education, Administrative Data
Table 6	Ministry of Municipal Affairs, Municipal Analysis and Retrieval System (MARS); Ministry of Education, Administrative Data; and 1986 Census

Additional copies of this Report and/or Highlights of this Report may be obtained from:
Fair Tax Commission, 1075 Bay Street, 6th Floor, Toronto, Ontario M5S 2B1

Aussi disponible en français